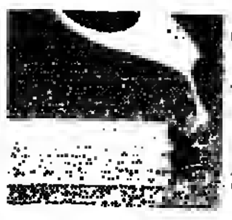

The big buzz
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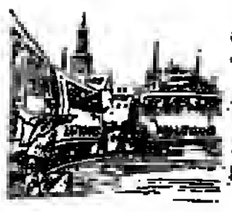

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Latvia's dream threatened by politics
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Early days for the bear market
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FINANCIAL TIMES

Europe's Business Newspaper — THURSDAY JUNE 23 1994 — D8523A

Europe backs law to set up elected works councils

All European Union member states except the UK agreed on a law to set up elected works councils in up to 1,500 large trans-European companies. The councils are intended to ensure that workers' representatives in companies employing more than 1,000 people are consulted and informed on cross-border business decisions that affect them. Page 18

France ready to send troops to Rwanda: France said it could begin sending troops to Rwanda today after winning United Nations approval for the mission. Page 4

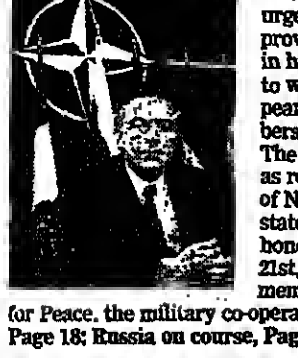
Nasdaq plans European market: Nasdaq, the US screen-based exchange which is the world's second-largest stock market by turnover, is holding talks with potential partners about creating a pan-European exchange for small and medium-sized companies. Page 19; Lex, Page 18

Metallgesellschaft, the heavily indebted German metals, mining and industrial group, has entered negotiations to sell its headquarters site in the centre of Frankfurt. The site could have s market value of DM750m ($460m). Page 19

Imperial Chemical Industries, the UK bulk chemicals company demerged from the old ICI a year ago, has underlined its break with the past by appointing as its new chief executive, Charles Miller Smith, an accountant from the Anglo-Dutch consumer products group Unilever. Page 19; Lex, Page 18

Foster's, the Australian brewery group, is joining forces with Wheelock, the Hong Kong-based trading house, to make a push into the brewing business in China. Page 19

Kozyrev urges slow approach for Nato:



Andrei Kozyrev (left), Russia's foreign minister, urged Nsto not to risk provoking public opinion in his country by rushing to welcome east European countries as members of the alliance. The appeal was made as representatives of Nato's 16 member states gathered to honour Russia as the 21st, and most important, member of Partnership for Peace. the military co-operation programme. Page 18; Russia on course, Page 3

Guinness scores at World Cup: Ireland's success in the World Cup is creating a windfall for Guinness, the London-based brewer, which has seen stout sales skyrocket on both sides of the Atlantic. Page 18

Optimism over Korean summit: South Korean officials expressed optimism that an unprecedented summit meeting with North Korea would take place, after Pyongyang agreed to discuss arrangements. Page 4

Hata coalition starts talks: Japan's minority government of Tsutomu Hata started talks with the opposition Social Democratic party to save the ruling coalition from imminent defeat. Page 4

Italian milk row threatens summit: The row over the way Italy exceeds its European Union milk production quota threatens to disrupt the Corfu summit of EU leaders which begins tomorrow. Page 2

Samper denies drug link: Colombia's president-elect, Ernesto Samper, vehemently denied accusations that his election campaign had benefited from contributions by the country's Cali cocaine cartel. Page 6

US Democrats attack religious right: Democratic party organisers, searching for ways of heading off defeats in November's US congressional elections, have embarked on a strategy of attacking the rival Republican party as a captive of radical, religious right wingers. Page 6

Rail strike hits France: A strike against job cuts badly disrupted French train services and fewer than half the trains were running in mnch of the country. Row over government role in UK rail strike, Page 10

Second shock defeat at Wimbledon: In another upset at Wimbledon, No. 2 seed Michael Stich was beaten by Bryan Shelton in straight sets. Stich, men's singles champion in 1991, joined fellow German Steffi Graf, the women's top seed, who was also beaten in the first round by an unseeded American.

STOCK MARKET INDICES

FT-SE 100:	2960.4	(+20.2)
Yield	4.18	
FT-SE Eurotrack 100	1323.8	(+19.52)
FT-SE-A All-Share	1485.05	(+0.5%)
Nikkei	20,581.32	(-231.84)
New York: lunchtime		
Dow Jones Ind Ave	3726.36	(+18.39)
S&P Composite	453.38	(+2.04)

US LUNCHTIME RATES

Federal Funds:	$4\frac{1}{8}$%
3-mo Treas Bills: Yld	4.252%
Long Bond	$85\frac{31}{32}$
Yield	7.39%

LONDON MONEY

3-mo Interbank	$5\frac{5}{32}$%	(same)
Liffe long gilt future:	Jun $101\frac{1}{32}$	(Jun $99\frac{7}{16}$)

NORTH SEA OIL (Argus)

Brent 15-day (Aug)	$17.48	(17.59)

Gold

New York Comex (Aug)	$391.4	(396.3)
London	$389.7	(same)

STERLING

New York lunchtime:		
$	1.531	
London:		
$	1.5356	(1.5374)
DM	2.4579	(2.4612)
FFr	8.4113	(8.4123)
SFr	2.0684	(2.0747)
Y	154.627	(155.623)
£ Index	79.8	(79.9)

DOLLAR

New York lunchtime:		
DM	1.60375	
FFr	5.485	
SFr	1.3505	
Y	100.90	
London:		
DM	1.6006	(1.6008)
FFr	5.4775	(5.4718)
SFr	1.347	(1.3495)
Y	100.895	(101.225)
$ Index	63.9	(64.0)

Tokyo close Y 100.85

Austria	Sch32	Greece	Dr350	Lux	LFr65	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Malta	Lm0.60	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30
Bulgaria	Lv25.00	Iceland	IKr215	Neth	Fl 4.00	Slovak Rp	Sk50
Cyprus	C£1.10	India	Rs60	Nigeria	Naira50	South Africa	R12.00
Czech Rp	CZK50	Israel	Shk8.90	Norway	NKr17.00	Spain	Pta225
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr16
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30
Finland	FM14	Jordan	JD1.50	Philippines	Pso50	Syria	S£50.00
France	FFr9.50	Kuwait	Fils.625	Poland	Zl 32,000	Tunisia	Din1.500
Germany	DM3.50	Lebanon	US$1.50	Portugal	Es225	Turkey	L30000
						UAE	Dh12.00

US currency steady ■ Investors urged to concentrate on 'strong fundamentals'

Clinton defiant over dollar's fall

By Michael Prowse in Washington and Philip Coggan in London

President Bill Clinton yesterday responded defiantly to downward pressure on the dollar in global financial markets, urging investors to pay more attention to strong US economic fundamentals.

"This is the first time in 30 years that we have had growth in the economy with no inflation led by investment that will create jobs," he said.

Mr Clinton's comments were reinforced by upbeat comments on the US economy by Mr Alan Greenspan, the Federal Reserve chairman, and Mr Lloyd Bentsen, the US Treasury Secretary. Their concerted remarks followed overnight intervention by the Bank of Japan and combined to help the dollar and stock and bond markets.

Bnt in Tokyo, Mr Hirohisa Fujii, Japan's finance minister warned that "rapid fluctuations" in exchange rates "would do harm not only to the Japanese economy but to the world economy". The Japanese government had called an emergency cabinet meeting to discuss the yen's renewed strength.

In London, the dollar closed at Y101.225 and DM1.6009, having briefly dipped below DM1.59 and Y100 – a post-1945 low – earlier this week. In New York the dollar was trading at Y100.7 and DM1.602 in the early afternoon, while the Dow Jones industrial average was up 19.19 at 3,727.95, its first advance in three sessions.

The benchmark US long bond was trading up $\frac{3}{32}$ by early afternoon at $86\frac{1}{32}$, pushing the yield down to 7.46. Mr Clinton gave no sign of wanting to change domestic policies in response to external financial pressures: "We'll just have to keep working on our fundamentals and know that in the end the markets will have to respond to the economic realities," he said.

The US is in its fourth year of a steady economic expansion. The unemployment rate has fallen to 6 per cent and the annual inflation rate is less than 3 per cent. Most countries are still struggling to emerge from recession.

Behind Mr Clinton's words is the confidence that the US economy is less vulnerable to damage from currency volatility than most countries because the share of trade in gross domestic product remains low.

Mr Clinton's claim that US economic achievements were being undervalued was echoed both by Mr Greenspan and Mr Bentsen.

Mr Bentsen said he was "concerned by recent movements in the exchange markets". The US and its Group of Seven partners would "continue to be prepared to act as appropriate" – a veiled reference to possible concerted intervention by central banks in support of the dollar.

Speaking on Capitol Hill, Mr Greenspan said the economic outlook was "as bright as it has been in decades".

Mr Greenspan said many investors were too pessimistic about the outlook for US inflation. Long bond yields were "higher than they should be" because they embodied an excessive "inflation premium."

European bond and stock markets took some comfort from the

Continued on Page 18

Package aims to balance social justice and strong growth

South Africa imposes wealth tax in budget

By Patti Waldmeir and Michael Holman in Cape Town

South Africa's new government yesterday presented its first budget, a cautious document demonstrating a commitment to fiscal and financial discipline while attempting to meet the needs of the poor.

The budget was the first real test of the economic policy of the multi-party government of national unity which took power just six weeks ago. It was widely welcomed by invastors, who approved of its restraint on spending.

Mr Derek Keys, finance minister, who presented the budget to parliament in Cape Town, said his aim was to have "the best of both worlds" – "social justice and aggressive growth".

It was a difficult balancing act, achieved in part by imposing what amounts to a wealth tax to cover the costs of transition – in particular, the expense of integrating guerrilla armies into the South African Defence Force and of excess spending on April's all-race elections.

The one-off tax will primarily affect white taxpayers and white-owned companies and is levied at 5 per cent on annual incomes above R50,000 ($13,700).

If white taxpayers received a shock, poorer blacks will be no better pleased. Excise on cigarettes was raised by 25 per cent and on some beers by as mnch as 33 per cent.

The extra revenue will make it possibla to reduce last year's budget deficit of 6.9 per cent of gross domestic product to 6.6 per cent in the year to March 1995.

Government spending will rise only marginally in real terms, in spite of R2.5bn spending on President Nelson Mandela's "reconstruction and development" programme, a plan to build houses and provide health care and education denied to blacks under apartheid.

That spending will be funded entirely from savings in other budgetary areas. Government spending on reconstruction is due to rise to R5bn next year, R7.5bn the following year, R10bn and R12.5bn in subsequent years.

Chief Mangosuthu Buthelezi, leader of the Inkatha Freedom Party and a cabinet member of the government of national unity, said the budget "could not have been better". Johannesburg financial markets closed little changed.

Mr Keys defended the wealth tax, which is likely to be the most controversial measure of his budget: "We think that every income earner in this country can be profoundly grateful that our transition has gone so very well."

South African finance minister Derek Keys on his way to parliament in Cape Town to present his budget. He said his aim was to have "the best of both worlds – social justice and aggressive growth". The budget was widely welcomed by investors, who approved of its restraint on spending

Picture: Ashley Ashwood

GE replaces top man at troubled Kidder Peabody

By Richard Waters in New York

General Electric yesterday replaced Mr Michael Carpenter as chairman and chief executive of Kidder Peabody, its tronbled securities subsidiary, in a move intended to shore up sagging confidence in the firm on Wall Street.

Mr Dennis Dammerman, GE's finance director, has taken over full-time management of Kidder. GE has also created the post of president and chief operating officer at the securities company for Mr Denis Nayden, an executive vice-president at GE Capital, the group's financial services arm.

In a further attempt to restore confidence in the firm, Mr Jack Welch, GE's chairman, took the unusual step of announcing that Kidder was likely to report a loss of $25m-$30m for the three months to June 30. The firm has been beset by reports that it had taken far bigger losses in recent weeks on mortgage-backed bonds, a market which it dominates in the US.

Mr Welch added that GE expected to report second-quarter earnings of $1.5bn.

The management shake-up at Kidder comes two months after Mr Welch expressed confidence in Mr Carpenter and his management team in the wake of a phantom profits scheme which rocked the Wall Street firm. Kidder has claimed that the head of its government bond trading desk, Mr Joseph Jett, created fictitious profits of $350m to boost his bonus, although Mr Jett has said that he acted under instruction from senior Kidder executives.

Mr Welch said yesterday's management changes were being made to demonstrate GE's continuing commitment to Kidder. The company came close to selling Kidder two years ago, and the recent troubles have led to speculation that it may try again to dispose of the business.

"Kidder's fundamentals ara strong and we intend to provide whatever financial and human resources are appropriate for the firm to realise its potential." Mr Welcb said.

British-born Mr Carpenter had also been appointed by Mr Welch to run Kidder after a troubled period at the firm. In 1989, when be was made chairman, the firm had been rocked by insider trading allegations and poor profitability after the 1987 crash.

GE called Mr Dammerman's involvement at Kidder "a transition role", and said he would return to his position as chief financial officer at the parent.

AT&T to form alliance with European telecoms venture

By Andrew Adonis in London

AT&T, the largest US telecommunications operator, will today announce an alliance with Unisource, the joint venture between the Dutch, Swedish and Swiss national telecoms groups.

The deal is the third and potentially most far-reaching of the alliances between US and European telecoms groups forged in the last year.

Unisource will become the European arm of Worldsource, AT&T's international venture launched last year to provide one-stop telecoms services for multinstionals. AT&T has enlisted several Asia-Pacific operators for Worldsource, but until now lacked a European partner.

Last week the state telecoms operators of France and Germany signed a $4.2bn alliance with Sprint, the third largest US long-distance operator.

At the same time, British Telecommunications gained final US regulatory approval for its $5.3bn alliance with MCI, the second largest US operator.

All three alliances are geared to providing one-stop telecoms services to multinationals, a market that is expected to grow rapidly with the opening of European services to competition.

An industry source said: "Last week's Sprint deal forced AT&T to stop dithering. It believes it is in danger of missing the European boat entirely."

The alliance between AT&T and Unisource is expected to be far looser than the tie-ups between the other two US-European groups. Unlike MCI and Sprint, AT&T is far larger than its European partners, and the deal is not expected to involve any exchange of cash or equity. It may not be exclusive, although Unisource will agree to market AT&T-branded services in Europe.

For AT&T, the deal follows a year of painful negotiations to find a European partner. Until late last year the company was negotiating with Deutsche Telekom and France Telecom. But problems about the shape of such an alliance, and fears of regulatory barriers preventing a deal between three of the world's four largest operators, are believed to have scuppered the talks.

Unisource has made a significant impact in the corporate market since it was establisbed a year ago. Earlier this year it bid successfully in partnership with AT&T for potentially Europe's largest corporate telecoms contract: to provide facilities for more than 30 European multinational companies.

Telefónica, the semi-private Spanish national operator, is an associate member of Unisource.

The industry source said: "The prospect of Telefónica coming in made Unisource far more attractive to AT&T. They couldn't find Holland or Switzerland on the map."

World stocks, Section II

CONTENTS

NEWS: EUROPE

German Social Democrat leader revives party's hopes of beating Chancellor Kohl

SPD loves Scharping when he's angry

By Quentin Peel and Judy Dempsey in Halle

Mr Rudolf Scharping, the embattled leader of Germany's opposition Social Democrats, lost his cool with his party comrades yesterday, and they loved it.

In an angry and even passionate speech to the pre-election conference of the SPD, he demanded party discipline, denounced his detractors, and sought above all to galvanise the delegates out of a mood of mid-election blues.

They responded with a resounding vote to back him as the party candidate to challenge Mr Helmut Kohl for the chancellor's office in next October's general elections – with 479 votes out of 502 in his favour, or more than 95 per cent.

For a man who has made his name as super-cool and massively self-controlled, to the point of being dull and wooden, it was a remarkable performance. It was also an essential one for the party and its leader, to revive their hopes of defeating Mr Kohl in October.

The venue was the giant indoor ice rink on the outskirts of Halle in he heart of east Germany's once-thriving chemical industry in the state of Saxony-Anhalt. And on Sunday, the local electors vote in another critical poll for a state parliament, which the SPD must hope to win to recover momentum in the current election marathon.

Yesterday's conference came just 10 days after the party suffered a severe reverse in the European elections, losing five percentage points to score just 32 per cent – its worst result since direct European elections began in 1979. It also failed to break the dominance of Mr Kohl's Christian Democratic Union (CDU) in local council elections in four of the five eastern states, partly thanks to a resurgence in support for the Party of Democratic Socialism - the former East German communist party.

When Mr Scharping rose to speak yesterday, it was against a background of bitter recriminations in party ranks and widespread blame for his lacklustre leadership and failure to challenge Mr Kohl head-on for the chancellorship.

"He is absolutely colourless, much too bland. No wonder the PDS are stealing our votes," said Mrs Edith Braun, mayor of Stendal in Saxony-Anhalt, before he started to speak.

And yet he was preaching to the converted, for they were longing to hear good news.

"There is a majority for change in this country," he said. "A party which believes in itself, in itself and its goals, can win the confidence of Germany, and s majority." That was what they wanted to hear.

He flatly rejected any suggestion the SPD should commit itself to a future coalition with the Greens, as its left wing wants to do. "We are not for spelling out our alliances," he said. "Wa are involved in an election campaign, and every other party is our competitor. Anyone who suggests otherwise damages the chances of the SPD to win a majority."

He admitted he was accused of being too dry and emotionless, but he was capable of being angry, too. "Anyone who wants to defeat me wants to defeat the SPD. That is what is behind it," he said. The applause rolled in.

Then he turned on his main rival for the party leadership, Mr Gerhard Schröder, the prime minister of Lower Saxony. He flattered him for winning an absolute majority – of just one seat – in his state parliament. And then he warned him to toe the party line.

"I would be quite grateful if we could talk a little bit more directly to one another sometimes," he said, very softly.

If there had ever been any doubt that there might be a backlash against his nomination as chancellor-candidate, it was gone.

He safely won a five-minute standing ovation.

Mrs Braun was equally ecstatic. "It was a great surprise," she said in the queue for sausages outside. "This was what we wanted to hear. We are on our way."

But if Mr Scharping has managed to give his party an essential lift in its spirits, much still depends on the outcome of Sunday's state poll. Tha SPD was still 1.5 points behind the CDU in the state, according to last week's local council elections. Mr Scharping needs a clear win to launch his campaign for the chancellor's office.

Call to arms: Scharping addresses yesterday's SPD conference AP

Rome gives debt and inflation priority

By Robert Graham in Rome

Mr Lamberto Dini, Italian treasury minister, yesterday signalled a shift in economic policy of tha new Berlusconi government, emphasising the battle against inflation and the need to tackle the budget deficit and Italy's debt.

His statement to the annual meeting of the Italian Bankers' Association was an attempt to win back the financial markets' confidence in the government's economic policy. It follows a Treasury statement, in a similar tone, on Monday and pledges by Mr Dini last Friday to carry out a tough 1995 budget.

"The priority of Italian economic policy must be to deal with any risks that might arise from the recovery," Mr Dini said. The economy is expected to grow 2.5 per cent next year.

The two fundamental guidelines were to "maintain a low rate of inflation and restore the health of public finances". The former director-general of the Bank of Italy added: "Without restoring the health of public finances, none of the macro-economic objectives can be reached."

Italy milk row threatens summit

By David Gardner in Luxembourg

The row over the way Italy exceeds its EU milk production quota threatens to disrupt the Corfu summit of EU leaders which begins tomorrow and jeopardise the agreement reached at the 1992 Edinburgh summit to increase the EU revenue base from next year.

After three days meeting in Luxembourg, agriculture ministers of the 12 looked unable to resolve the milk controversy.

"I can't see that it's going to be done except at Corfu," a European Commission official said. Ministers at the meeting said Italy's delegation appeared to be under instructions from prime minister Silvio Berlusconi to stick to its guns. The ramifications of the conflict are wide.

After former Italian prime minister Giulio Andreotti startled his partners by forcing milk on to the Lisbon summit agenda two years ago, Rome agreed to cut its excess output in axchange for a quota increase tonnes. But in March, Brussels said Italy had not cut enough.

Italy then produced new figures saying its output had all along been overestimated.

The UK meanwhile had taken the Commission to the European Court, because it had reduced the fine for excess output by Italy, and to a lesser extent Greece and Spain, from Ecu3.2bn to Ecu1.3bn ($1.5bn). Mr Berlusconi wants the case dropped, and the new quota arrangements made retroactive to take account of the revised output figures. This would wipe out a large part of the fine, a move Germany opposes, saying it would cost its taxpayers Ecu800m.

But Italy says that unless it gets satisfaction, it will not ratify the Edinburgh agreement on revenue, necessary to increase flows of regional aid from next year.

Senior officials from Germany and the UK – the two largest contributors to the EU budget – hint that a block on the increase would not make them especially unhappy. But it would be "a bit of a mess", as a British official understated it. The EU would be unable to agree a budget for 1995.

The row could also affect ratification in other countries, notably the Netherlands, which is set to become the largest net contributor to the EU budget on a per capita basis.

Officials in Brussels and at Luxembourg are speculating that Mr Berlusconi may have reached a deal with Chancellor Helmut Kohl at their recent meeting.

This would inclnde milk, Italian backing for Belgian prime minister Jean-Luc Dehaene to succeed Mr Jacques Delors as Commission president, and German efforts to mobilise the EU behind an Italian candidate – former trade minister Renato Ruggiero – to head the new World Trade Organisation.

That would still leave the British court case to be resolved. But senior EU diplomats note that the UK is anxious to cement an alliance with the more Eurosceptical Berlusconi government.

Ministers back flexibility over Europe state aid

By Emma Tucker in Luxembourg

A majority of EU industry ministers yesterday threw their weight behind a commission proposal to allow s flexible interpretation of stats aid rules, in order to secure crucial capacity cuts in Europe's battered steel industry.

At a meeting in Luxembourg ministers were persuaded by Mr Karel Van Miert, competition commissioner, that this was the only way to resurrect the steel rescue plan, which now – after weeks of uncertainty –looks set to survive.

Only the UK and Denmark had reservations. They were worried that the commission would set a bad precedent by allowing state aid to be paid to steel mills in northern Italy in return for only partial closures of the enterprises.

Under EU law, state aid is not supposed to be used to fund partial closures, but because of complex cross-ownership links among the Brescia mills, not all companies linked to steelmaking will close under the terms of the rescue plan.

"I am not entirely happy with what the commission proposes to do," said Mr Tim Sainsbury, UK industry minister. "That part of the plan that does not involve closure of full enterprises is not justified. I have reservations about how effectively the closures can be monitored and whether or not they will result in real reductions in capacity."

But Mr Van Miert said the commission intended to improve monitoring of the capacity cuts. It has agreed to take action against enterprises that do not meet the conditions for state aid payments, possibly by asking them to repay the aid. It aiso agreed to involve outside consultants in the monitoring process and said it would be particularly careful to ensure that debt accumulated by those parts of the steel enterprises that were not closing would not be off-loaded onto those parts that were.

Mr Van Miert believes the reductions at Brescia will secure a further 5m tonnes of capacity cuts, taking total production reduction under the plan to around 16m, still short of the envisaged minimum capacity cuts of 19m tonnes.

Although tha commission did not need council assent oo the steel plan, which falls under the competence of the commission, it was eager to get the political support of tha member states.

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CORRECTION

MTV

In the Financial Times of June 3, it was reported that MTV Europe has an audience of 25m households. MTV estimates that its audience is over 60m households.

EUROPEAN NEWS DIGEST

Hundreds of companies in Czech sell-off

The Czech Republic is to begin a big sell-off in the next two months of stakes in several hundred companies where the state remains a majority shareholder, Mr Roman Ceska, deputy privatisation minister and chairman of the National Property Fund, the state holding company, said yesterday. It is expected that up to s third of the Kc150bn (£3.5bn) worth of assets, involving mainly commercial and industrial companies in which the NPF retains a majority stake, will be offered for sale to domestic and foreign buyers by the end of this year. Some of the offers will be advertised internationally. Companies to be included in the sell-off include Chemicke Zavody Sokolov, one of the country's biggest chemical companies, in which the US company Dow Chemical sttempted to buy a stake two years ago. The deal fell through after the two companies failed to agree a price, and the NPF has remained as the company's majority shareholder. Mr Ceska, who took over from Mr Tomas Jezek as NPF chairman 13 days ago, said the state intended to offer each stake in its entirety to a single buyer and sell to the highest bidder.

The move is likely to be the last big sell-off by the government. Its voucher privatisation system, in which an estimated 6m Czechs bought vouchers enabling them to bid for shares in two tranches of companies being privatised, has so far resulted in the partial or complete privatisation of nearly 2,000 Czech enterprises, representing over 80 per cent of the country's economic activity. *Vincent Boland, Prague*

Electrolux purchase approved

Electrolux, the world's leading household appliance maker, said yesterday it had received approval from the European Commission for its DM730m (£294.3m) acquisition of AEG Hausgeräte, the white goods arm of Germany's AEG industrial group. The takeover, which will now take effect from October 1, will bring Electrolux alongside Whirlpool of the US in global white goods sales, extend its lead in total appliance sales and give the Swedish group a commanding position in Europe's white goods markets. Together, Electrolux and AEG Hausgeräte have annual appliance sales of more than $9bn. Combined with AEG, Electrolux will have a white goods market share in western Europe of at least 25 per cent, against 15-19 per cent for Bosch-Siemens of Germany and 11-15 per cent for Whirlpool Europe. In Germany, the AEG deal will give Electrolux some 35 per cent of the local market.

The Commission issued its approval of the takeover after s one-month review. Electrolux said the Commission's main concern had been over its position in Scandinavian markets, where its share is now set to rise significantly above its share in other European markets. Although Finland, Norway and Sweden are not yet members of the European Union, they are covered by EU competition rules under the European Economic Area agreement. *Hugh Carnegy, Stockholm*

French rail workers strike

A strike by French rail workers against planned job cuts badly disrupted train services yesterday, and fewer than half the trains were running in many areas of the country, according to SNCF, the state railway company. The strike, which is due to last until this morning, forced the cancellation of most of the trains on the high-speed TGV network between Paris and the southeast, SNCF said. TGV traffic between Paris and the southwest was cut in half, while service to the north was normal. Commuter services into Paris were cut in half except from the eastern suburbs, where they were only slightly disrupted. The communist-led CGT union called the 34-hour strike. Another drivers' union, the FGAAC, backed the strike to demand talks on working conditions on the Channel tunnel line. *Reuter, Paris*

Assembly to vote on Tapie

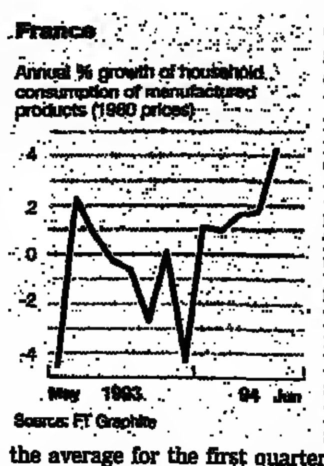
Mr Bernard Tapie, the French entrepreneur turned politician, will on Tuesday face a National Assembly vote to decide whether to endorse yesterday's recommendation by a committee to lift his parliamentary immunity. Mr Tapie, whose left-wing Energie Radicale movement won 12 per cent of the votes in this month's European elections, could then face two separate fraud charges concerning the purchase of the Phocéa, his luxury yacht. His immunity was previously lifted late last year so he could be examined in a fraud case concerning Testut, one of his old business interests. Mr Tapie's critics have accused him of becoming a Euro-MP to stave off further legal threats. A cartoon on the front page of today's Le Monde shows him monocycling across a tightrope stretched between the French and European parliaments. *Alice Rawsthorn, Paris*

Çiller denies impropriety

Turkey's prime minister Mrs Tansu Çiller went on the record yesterday to deny allegations of official impropriety in her business dealings after newspaper claims that she had used her office to acquire property in the US. Mrs Çiller is under pressure to clear her name after a whispering campaign about her business dealings and those of her husband, who publicly gave up his licence as franchisee of the US fast food chain 7-Eleven when she became prime minister last year. Mrs Çiller told the official Anatolia news agency she had not declared the assets when she became an MP in 1991 because the properties were owned by Marsan, a Turkish-registered company in which she and her husband are shareholders. Moreover they were acquired before she became a minister. Milliyet, a Turkish newspaper cited documentation alleging the prime minister and Mr Ozer Çiller were the owners of a hotel, shopping centre and villa near Salem in Oregon, properties acquired since she was appointed to the cabinet in 1991. *John Murray Brown, Istanbul*

ECONOMIC WATCH

French consumption down



French household consumption of manufactured goods fell 0.9 per cent in May, compared with April, but the trend for the current quarter is still upwards, the Economics Ministry said yesterday. The ministry said decline in household consumption reflected tha sharp increase in spending in April. Household consumption in April grew by a revised 1.8 per ceot, partly reflecting government incentives for car buyers. Economists in Paris said spending in May was still 0.6 per cent higher than March and 1.1 per cent higher than the average for the first quarter. Even with flat consumption in June, they said second-quarter consumption should still show an increase of 1.5 per cent over the first three months. *John Ridding, Paris*

■ Dutch seasonally adjusted manufacturing production fell 2.0 per cent in April compared with March, but non-seasonally adjusted manufacturing production was up 1.9 per cent year-on-year, the Central Bureau of Statistics said.

■ Swedish gross domestic product rose by 0.1 per cent in the first quarter of 1994 from the fourth quarter of 1993 and by 1.4 per cent compared with the first quarter of 1993, the Central Bureau of Statistics said. Industrial prodoction rose 2.1 per cent in April against March and 10.6 per cent year-on-year.

■ Hungarian industrial producer prices rose 0.9 per cent in April from March and were up 9.7 per cent from April 1993, the Central Statistical Office said.

First-quarter growth figures confirm central bank's optimism over recovery

Spain faces recession aftershocks

By David White in Madrid

Spain's recession is now over but its consequences will be felt for a considerable time, the Bank of Spain said in its annual report published yesterday.

Its optimism about the turnaround was confirmed by figures from the National Statistics Institute showing economic growth of 0.8 per cent in the first quarter against the same period last year. This was the first positive growth in year-on-year figures for Spanish GDP since the third quarter of 1992, and exceeded the central bank's earlier estimate of 0.5 per cent.

The figure compared with a 0.2 per cent decline in the last quarter of 1993 and a 1 per cent reduction for last year as a whole. It reflected a 19.1 per cent growth in exports in the quarter. Imports also rose by 4.5 per cent, the first increase since 1992.

Internal demand continued to fall but at a reduced rate of 2.1 per cent compared with 3.3 per cent in the previous period. The fall in gross fixed capital formation, meanwhile, slowed to 5.8 per cent from 8.9 per cent.

The Bank of Spain report said recovery had begum to affect internal demand, which could soon show "moderately positive" growth. Howaver, Spain faced "enormous difficulty" absorbing its high level of unemployment, now running at almost 25 per cent, and the effect that this would in turn have on the country's economic growth potential.

Prospects for sustained growth and economic convergence with the richer countries of the European Union were conditional on "more balanced macro-economic policies" and on greater success in reducing inflation and tackling the high public sector deficit, the bank said. The inflation differential between Spain and the three best-performing EU members remained at about three percentage points.

Mr Luis Angel Rojo, Bank of Spain governor, said there was little room for further reductions in short-term interest rates, after a succession of cuts earlier this year. He said there would be "great cautiousness" about interest rate levels in Europe generally, and there would only be room for further cuts in Spain if they reduced inflation and the public deficit.

"Any relaxation of monetary policy not justified by these fsctors would only help to increase the risk of an unbalanced recovery," he said.

Yeltsin defied as deputies' militancy grows

By John Lloyd in Moscow

Russia's lower bouse of parliament yesterday failed to pass the 1994 budget at a third reading and came out strongly against President Boris Yeltsin's decree against crime as it "seriously limits the constitutional rights and liberties of Russian citizens".

The votes, together with a swell of protest against proposals from Mr Vladimir Shumeiko, leader of the upper house and an ally of Mr Yeltsin, to prolong the terms of both the parliament and the president by two years without election, marks a sudden militancy in a body which bas been relatively restrained in its six-month life.

The ground on which it is preparing to fight – that of the constitution – is similar to that on which Mr Yeltsin and the previons parliament divided and ultimately fought. The difference this time is that the constitution is Mr Yeltsin's creation.

The vote on tbs budget, which had been expected to go through after two lower house readings in which it gained large majorities, followed its rejection by the upper house earlier this week. The upper house had demanded an increase in military spending in the budget from Rbs37,500bn to Rbs55,000bn, following sustained lobbying by the military and military industry.

A large majority of deputies voted for the budget but failed to secure the required 225 votes. Between 215 and 220 voted in favour, with 43 against and 60 abstaining.

There was overwhelming support – 246 against 6 – for s resolution calling on Mr Yeltsin to withdraw his decree announced last week "on urgent measures to protect the citizenry against banditry and organised crime". The size of the majority shows that opposition to the unconstitutional nature of the decree has spread across all parties.

Mr Viktor Ilyukhin, a leading member of the Communist faction, said it broke as many as eight articles of the constitution, while Mr Boris Fyodorov, reformist leader of the Liberal Democratic Union, said that "until the government and president obey their own laws and its own constitution we will not have reform here".

The decree allows for a suspect to be held without charge for 30 days, against the 48-hour limit specified by the constitution.

Russia on course for EU free trade zone

By David Gardner in Luxembourg

The last obstacle to concluding a wide-ranging partnership agreement between Russia and the. European Union, leading to a free trade zone by the end of the century, was removed yesterday wben tha Netherlands endorsed the deal.

President Boris Yeltsin is to sign the accord tomorrow morning in Corfu, at the summit of EU heads of government. The EU reached a similar deal with the Ukraine in Luxembourg last week.

The Dutch were unhappy with Moscow's conditions for the five EU banks already operating in Russia when a December 1993 decree restricting foreign banking activity came into force. Two Dutch banks were among the five.

These banks and the Dutch government have now received written confirmation from the Russian central bank that under a subseqnent decree, passed earlier this month, they are "authorised to carry on all operations mentioned in [their] licence", including with Russian residents.

Nancy Dunne adds from Washington: Mr Al Gore, US vice-president, yesterday predicted "multibillion dollar contracts" for oil and gas exploration and in investment in sectors such as housing and transportation in Russia. There would be "new markets, new trade in both directions" between the US and Russia.

He was speaking in a television interview before a meeting with Mr Victor Chernomyrdin, Russian prime minister. The two head a commission, which meets this week in Washington, to press joint efforts on business, science, defence, energy and the environment.

A senior administration official said US investment in Russia could leap from its current $1bn to $40bn-$50bn by the end of the decade if Russia developed a liberalised trade and investment regime. The official added there would be talks abont proposals for a large oil exploration agreement involving Marathon Oil and McDermott, both of the US.

Frederico Mayor (left), Unesco secretary-general, is greeted by Russian President Boris Yeltsin during a meeting yesterday in Moscow, where the UN agency is to open an office Reuter

Ukraine's economy not on poll agenda

But links with Russia are, writes Jill Barshay

Ukrainian president Leonid Kravchuk appears to be defying the rule that incumbents stand littls chance of re-election in a recession. Despite the record of his 30-month tenure – which has included a 40 per cent drop in gross domestic product over the first four months of this year alone – Mr Kravcbuk is gaining in the opinion polls against his main challenger on Sunday, the former prime minister, Mr Leonid Kuchma.

Indeed, repairing the economy, the main challenge facing Ukraine's next president – is barely on the campaign agenda.

Instead, campaigning has focused on the shape of a proposed new constitution, the status of the Russian language in a country with an 11m-strong ethnic Russian minority and the extent of alignment with Russia itself.

Though Ukraine's leaders succeeded in creating an independent state from the disintegration of the Soviet Union, they have failed to make it economically sustainable, leaving its statehood fragile and beholden to Russia.

Ukraine is kept afloat by a large Russian subsidy ($1bn-$2bn annually in unpaid oil and gas debts) while Kiev props up its energy-wasteful heavy industries and subsidises its state farms with money it does not have.

While the west has woken up belatedly to the fact that Ukraine's stability is important for Europe, Ukraine has yet to face up to the fundamental economic choice of wbether to remain dependent on Russia or restructure its energy-intensiva industries and diversify its markets.

Asked why no one is talking about economics, Mr Mykola Mikhailchenko, the president's chief domestic adviser, says: "The majority of Ukrainians are satisfied with the current path of reform."

In fact economic dissatisfaction is widespread, but Ukraine's main power brokers – the collective farm bosses, industrial directors and Soviet-era bureaucrats – are more interested in maintaining their positions than reforming the economy.

The slow pace of privatisation – only 150 enterprises in the first wave of the sell-off programme – has also meant the lack of a class of independent owners with an interest in reform. Many private entrepreneurs have gone underground to form a black economy which probably equals tbe official economy because it is the only way to snrvive in Kiev's thicket of restrictions and high taxes.

The only presidential candidate running on an economic reform platform, Mr Volodymyr Lanoviy, is trailing with less than 10 per cent support in the opinion polls. Even Ukraine's nationalist west has abandoned him, unconvinced this "Ukrainian Gaidar" could beat their main foe, Mr Kuchma.

The two main contenders offer populist promises. Mr Kuchma, a Soviet-era missile plant manager who resigned as prime minister last September after a power struggle with the president, says he will resurrect Ukraine's economy by "re-establishing ties with Russia". But he does not say whether be means economic union, whereby part of Ukraine's sovereignty would be sacrificed to Russia, or freer trade, which would require Ukraine to lift subsidies and price controls as Russia itself has done.

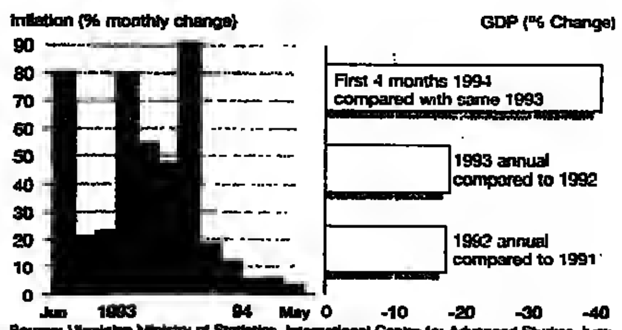
The largely Russian-speaking eastern Ukrainians, particularly communists and factory bosses, seek a return to pre-independence relations where orders from Russian plants flowed in. They are strongly criticised by Mr Mikhailchenko for not understanding "that Russia is just not the same it was two years ago – you can't just recreate the old connections now".

President Kravchuk offers an even vaguer platform of simply "developing Ukraine's socially-oriented economy", but observers do not regard his record as encouraging. Only last week he called for the indexation of savings, a move whicb would cost Ukraine about $22bn at tbe current depressed exchange rate for the Ukrainian currency, tbe karbovanets.

Last winter the government tightened monetary policy and managed to reduce inflation from 90 per cent monthly last December to only 5.2 per cent last month. But the political fallout from the credit squeeze was too much to bear and Kiev loosened the monetary screws in early spring. In April alone the money supply grew 60 per cent.

With the desire to bail out ailing state enterprises winning out over the battle against inflation, most observers believe that the next president is likely to inherit a resurgence of inflation by the end of the summer and a host of other problems which the campaign has not addressed.

Ukraine



Source: Ukrainian Ministry of Statistics, International Centre for Advanced Studies, Kiev and Economic Research Project in the former Soviet Union, Duke University

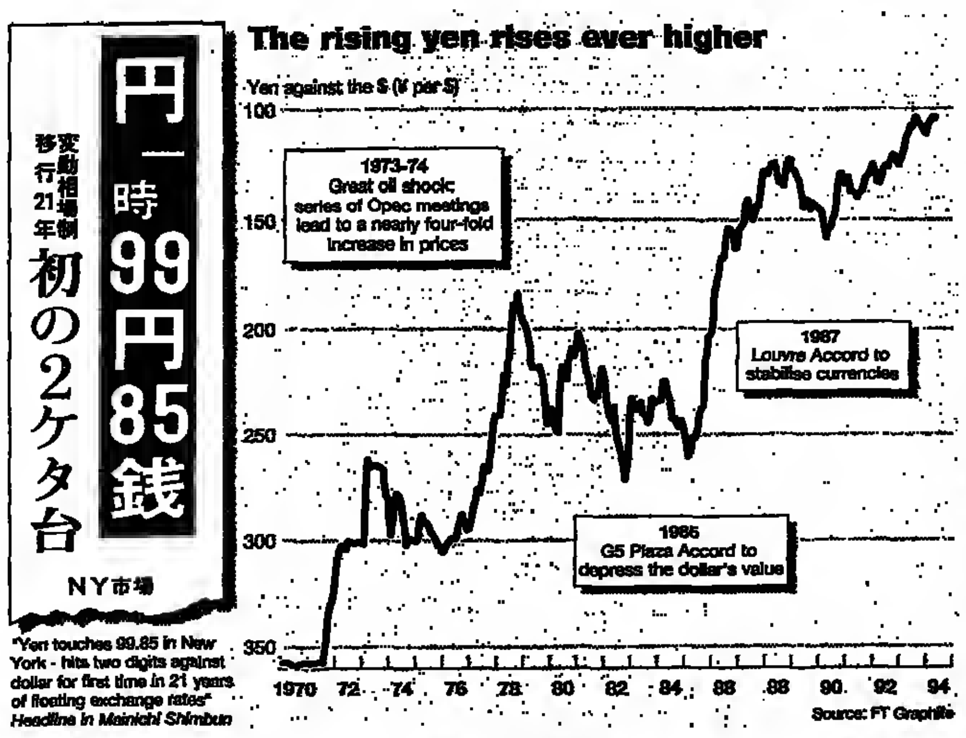
Anxious Japanese fearful of yen's strength

William Dawkins on worried industrialists and financiers – and contented consumers

The unthinkable suddenly became thinkable yesterday after the yen briefly voyaged, for the first time, through the psychologically emotive barrier of Y100 to the dollar.

This historic trip into unknown territory has reawakened corporate Japan's fears that the unexpected strength of the currency might stifle the country's fragile economic recovery, just as an unscheduled rise in the yen did this time last year.

An anxious Tokyo government yesterday said it would step up efforts to reach a trade agreemeot with the US, suspense over which has contributed to the yen's rise, and seek co-ordinated currency market intervention with other members of the Group of Sevso. The yen hit a new closing high of Y100.65 to the dollar in Tokyo yesterday, 12.8 per cent above its level at the turn of the year.



"Yen touches 99.85 in New York - hits two digits against dollar for first time in 21 years of floating exchange rates" *Headline in Mainichi Shimbun*

"Rapid fluctuations would do harm not only to the Japanese economy hut to the world economy," warned Mr Hirohisa Fujii, finance minister, after an emergency cabinet meeting to diecuss the yen's break through Y100 in New York the previous night. He would not comment on why, by yesterday evening, central banks had not jointly intervened, as they did last time the dollar fell sharply against the yen, in May.

"There is a scream arising from Japanese industry," added Mr Eijiro Hata, minister of international trade and industry. The rise could not have come at e worse time, in European and US markets after the Japanese government had gone to bed, celebrating the day's announcement of a 3.9 per cent annualised increase in gross domestic product in the first quarter, the hest performance for three years.

A satisfied Mr Tsutomu Tanaka, vice minister of the government's economic planning agency, had at the time announced that – barring a yen ehock – Japan had now turned the corner, from its 37-month long economic slowdown, the longest post-war decline.

The currency turmoil prompted the third consecutive daily fall in share prices yesterday, leaving the Nikkei 225 index down 231.8 points at 20,581. The Bank of Japan hought dollars heavily. But officials said there was no change in monetary policy, on the grounds that the yen's rise was more of a function of the dollar's weakness against the D-Mark, even if this could be "negalive for the economy".

Most Japanese companies based forecasts of a recovery this year from four years of profits decline on an exchange rate of about Y105 to the dollar. They may therefore have to reduce their forecasts if the yen sticks at the present level.

The impact, however, will be uneven. Export dependent sectors, such as electronics lose 6.7 percentage points from annual pre-tax profits with each one yen rise of the Japanese curfency against the dollar, estimates Nikko Research Institute. Car manufacturers lose 10 per cent of their profits for every yen rise, estimates Miti'e Mr Hata.

Car importers, by contrast, have been achieving record sales recently – 8.6 per cent of the Japanese market in May – thanks to the yen'e strength.

Japanese consumers have seen prices of imported goods fall accordingly. Unsurprisingly, they find it hard to understand the routine cries of alarm from government and companies at every time the yen rises through a psychological barrier.

This invites the question of whether the Finance Ministry is right to be as worried as it is. The currency rise is not eoough to choke the general economic recovery, as happened last year, helieves Mr Yusuke Kashiwagi, senior adviser to the Bank of Tokyo and former vice minister of finance for international affairs.

"I don't think this will hit recovery prospects. This recovery is consumer led and not export led, so the exchange rate will affect the minds of business rather than consumers," he said. However, he admitted that the volatile jumps in the yen'a value were getting "more and more unbearable" in casting uncertainty over Japan's economic performance.

Mr Jun Saito, senior economist at the government's Economic Planning Agency, believes managers are getting more worried by the yen's appreciation, rather than learning to to live with exchange rate volatility: "They are having to make hard decisions on how to adjust."

So far, corporate Japan has avoided the toughest decisions. It has avoided making redundancies to reduce its high-yen inflated costs in line with international competitors, so that consumers have been partly insulated. However, companies have started to cut recruitment and have increased the pace at which they move production out of Japan to cheaper locations.

According to a recent survey hy the Yomiuri Shimbun daily, 70 per cent of Japanese companies will recruit fewer new people this year. in the meantime, the proportion of overseas production will rise from 7 per cent of the total now to 12 per cemt in the next two to three years, forecasts the Tokyo office of Morgan Stanley. The latest yen shock can only reinforce those trends, suggesting that Japan is unlikely in this decade to recover to the fast economic growth of the 1980s. The yen's strength makes for a weak economic dawn.

Hata starts talks on coalition with Social Democrats

By William Dawkins in Tokyo

The minority government of Mr Tsutomu Hata, yesterday started talks with the opposition Social Democratic party to save the ruling coalition from imminent defeat.

Government officials will this morning meet the SDP for a second time, in an attempt to persuade it to rejoin the coalition, so restoring its parliamentary majority. This would ensure the failure of a oo-confidence vote hy the largest opposition group, the Liberal Democratic party, which could be launched as early as today.

The markets will watch the talks closely because the latest bout of political instability has been a factor iu exchange rate turmoil. It has foelled fears that the government will be unable to prodnce a convincing package of deregulation and tax reform measures, dne next week, so stoking US frustration and putting more pressure on the yen.

If the SDP refuses to join forces with Mr Hata, and sides with the LDP, the no-confidence vote will probably succeed, forcing Mr Hata and his cabinet to resign. Mr Hata has said that he would not call an election, because that would delay completion of a new electoral system, but leave it to other parties to form a coalition.

SDP leaders yesterday indicated they are interested in rejoining Mr Hata's camp. The party has agreed, in a document presented to the government, to a rise in indirect taxation, the most controversial part of the coalition's economic policy.

The SDP party also wants promises it will be more closely involved in decision making, a sensitive point because formation of a centre right grouping within the coalition, but excluding the SDP, prompted it to walk out of the government in April.

UN agrees to French troop deployment in Rwanda

By Michael Littlejohns, UN Correspondent, in New York and David Buchan in Paris

The United Nations Security Council last night agreed to independent deployment of French troops in Rwanda to protect civilian lives until a UN force is adequate for the task.

The council acted with some reluctance, even though the resolution does not mention France by name, speaking only of a temporary multinational operation "under national command and control". Ten of the 15 members voted for the plan. Brazil, China, New Zealand, Nigeria and Pakistan abstained.

France has said it expects one or more other European countries to join a miseion that, according to the resolution, will be strictly humanitarian and "conducted in an impartial and neutral fashion".

The troops will "not constitute an inter-position force" between the warring parties.

But Mr Claude Dusaidi, UN representative of the Rwandan Patriotic Front, was unconvinced. Shortly before the vote, he accused France of trying to block an insurgent victory in the civil war: "We shall resist French intervention with all the means at our disposal."

The rebels' opposition was a factor cited by members who abstained on the French proposal.

In Paris, Mr François Léotard, defence minister, said "Operation Turquoise" could start today Paris is mobilising some 2,500 men by drawing on 1,500 troops stationed in Gabon and Djibouti and flying the rest out from France.

Mr Léotard said an advance party had landed in Goma in Zaire, near the northwestern border of Rwanda. Officials said French troops would seek to protect pockets of Tutsis in the western part of the country held by the mainly Hutu government forces.

He said he had given his troops "very precise instructions to avoid any confrontation with the [rebel] forces".

Mr Eduard Balladur, the prime minister, told the National Assembly, France could count on the military participation of Senegal and hoped for at least logistic help from several European countries.

He said he had been in contact with Prime Minister Silvio Berlusconi of Italy, who has made Italian military participation conditional on agreement of both sides in the conflict. France also had "active political and logistic support" of the US, Mr Balladur said.

The operation is mandated for two months. It could be less if Mr Boutros Boutros-Ghali, UN secretary general, manages to bring the UN force up to strength sooner than that.

His strong backing for the French initiative was critical to its success in the council. Members were also influenced by his warning that it could take up to three months for the projected 5,500-man all-African UN force to be fully deployed.

Keys budget confirms fiscal caution

Mark Suzman and **Tony Hawkins** on new South Africa's spending plans

Any fears that South Africa's business community might have had that spending on righting the wrongs of apartheid would dent the new government's commitment to fiscal discipline proved unfounded yesterday when the finance minister, Mr Derek Keys, presented the African National Congress-led government's first budget to parliament.

Indeed, initial reaction in markets hoth at home and abroad was favourable, with business welcoming the hudget'e pro-investment thrust.

At the same time, an ANC election promise to aholish VAT on basic foodstuffs and drugs was ditched because the fiscal implications would have been "elgnificant". In the words of one economist, "it comes as a surprise to see an ANC government handing out goodies to the corporate sector but not to the masses".

Mr Keys managed to keep the projected hudget deficit close to the 6 per cent of gross domestic product limit agreed with the International Monetary Fund.

He is forecasting a deficit of 6.6 per cent of GDP for the financial year March 1995 on 3 per cent growth, or 6.4 per cent when the full collection of a temporary income tax levy is taken into account. This compares with 6.9 per cent last year and, with some analysts arguing that the revenue forecasts are conservative, the actual deficit could well be lower.

"The deficit's still a little high, but the emphasis is on investment rather than consumption, which will help sustainable growth," notes Mr Nick Barnardt, economist at broker Ed Hern Rudolph,

Increases in social spending will be focused on the new government's Reconstruction and Development Programme which, as previously announced, will amount to R2.5bn (£458m) for the current financial year. Expected future allocations come to R37.5bn over five years, although this figure is subject to change, depending on future economic growth and political pressures.

Ministers defended the decision not to abolish VAT on basic foods saying that targeted spending programmes such as free health care for infants and a school feeding scheme would do more to achieve poverty reduction than tax cuts.

Particularly striking was the size of the costs of the transition at nearly R4bn. This was largely due to greater than expected costs from the election and the incorporation of former guerrillas into the army. To help finance this, revenue will increase 11.2 per cent in the current year, thanks primarily to a R2.6bn transition levy on individuals and companies.

Individuals will pay a 5 per cent surcharge on that portion of their income in excess of R50,000 a year. Companies will pay a similar 5 per cent surcharge on their profits.

Mr Keys and his deputy Mr Alec Erwin stressed that the transition surcharge would be temporary and thet the government would not seek excuses to maintain it into the next financial year as a "wealth tax". Mr Keys's also announced the appointment of an independent Tax Commission to restructure the tax system.

A cut to 35 per cent from 40 per cent in the corporate tax rate is partly compensated by the increase to 25 per ceot from 15 per cent in the so-called secondary tax payable on dividends.

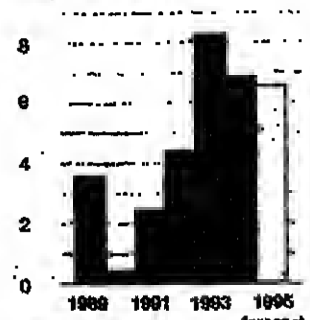
The net effect will be an increase of R2hn in direct taxes, partly offset by a R500m reduction in the import surcharge on capital and intermediate goods. Mr Keys will also raise an extra R350m from increased "sin taxes" on alcohol and tobacco.

At 23.6 per cent of GDP, the tax take will be virtually the same as last year, reflecting an anticipated 3 per cent growth in output this year. Government spending at just more than 30 per cent of GDP, is forecast to be slightly lower than last year.

After taking account of loan repayments, Pretoria faces a borrowing requirement of R36.5hn (R33hn last year) almost all of which (R34.5bn) is to be funded from domestic borrowing, with R1.8hn raised offshore. Mr Keys said the breakdown between domestic and foreign borrowing would depend on market conditions and the outcome of South Africa's quest for an international credit rating, expected by the end of the year.

South Africa

Budget deficit as a % of GDP



Source: Ministry of Finance

Social spending will absorb 45 per cent of the budget, up from 44 per cent last year, with education accounting for 22 per cent, health 10.2 and social security 9.3 per cent. Within health, 25 per cent of the budget will now be diverted to primary health care, which has become a focus of President Nelson Mandela's government.

Also notable has been the increase in the defence budget which the ANC before the election had repeatedly identified as a sector from which much money could be diverted to development. However, this year's allocation, which has been swollen by traneitional costs of incorporating former ANC guerrillas into the army, rose to R12.1bn from R10.6bn. The total share of defence has actually increased to 8.7 per cent of the budget from last year's 8.1 per cent, hut remains well down from 13.7 per cent in 1990/91.

Mr Keys' announcement that there would be no change to the current exchange control regulations, despite widespread speculation in business circles thet some liberalisation was imminent, did not affect the markets and the raod remained steady.

Pakistan chambers 'to strike'

By Farhan Bokhari in Islamabad

Pakistan's largest organisation of trade associations and business chambers last nlght threatened to strike from Sunday if the government does not withdraw its plan to widen an existing net of a VAT-style general sales tax.

The government said it was extending GST to include up to 277 items in last week'e hudget.

Businesses are opposing the measure on the grounds it would fuel corruption hy giving extra powers to government inspectors to clamp down on various factories unless they were paid an illegal "gratification".

"This budget will ruin the economy. Its no good," said Mr. S.M. Muneer, chairman of the Federation of Pakistan Chambers of Commerce and Industry which represents 120 associations and 30 husiness chambers, after the first round of discussions with government ministers and officials.

"They (businesses) want to pay more taxes but not the GST because it will only give birth to corruption" Mr. Muneer added.

Mr Ahmed Mukhtar, commerce minister, said some of the objections from businesses were being considered by officials for possible changes, but the government would not consider any of tbe demands "under pressure".

Such confrontation between the government and business leaders is not unique in the days after the budget. In previous years too, businesses have resisted various budgetary measures, eventually forcing governments to beck off or partly tone down some of their proposals.

However, it was not clear last night if the two sides could reech a compromise wlthout one of them backing off on an important issue of interest.

Seoul officials optimistic over talks with North

By John Burton in Seoul

South Korean officials yesterday expressed optimism that an unprecedented summit meeting with North Korea will take place, after Pyongyang agreed to discuss arrangements.

"The North Koreans' sincerity seems higher than at any other time in the past," said Mr Han Sung-joo, South Korea'e foreign minister.

He described as "encouraging" the North'e quick approval of a proposal from Seoul to hold o preparatory meeting for the eummit on June 28, to be attended by each side's deputy prime minister.

Previous attempts to arrange inter-Korean talks have heen plagued hy procedural disputes, but this does not appear to be case so far this time, Mr Han said.

North Korea suggested the summit last week when former US President Jimmy Carter visited Pyongyang in attempt to mediate in a dispute over international inspections of North Korean nuclear facilities.

Officials in Seoul believe the summit could be held as early as mid-July and coincide with a new round of high-level talks between North Korea and the US to discuss possible diplomatic ties. South Korea has no objection to the normalisation of US-North Korean relations as long as Pyongyang "is willing to fulfil its international obligations and start behaving as normal and law-ahiding nation," Mr Han said.

The US has suggested it will recognise North Korea if Pyongyang allows the international Atomic Energy Agency to conduct full inspections of its nuclear facilities.

In Brussels yesterday, the US and Russia agreed on a common approach towards a possible United Nations Security Council resolution on sanctions to be imposed on North Korea over the refusal to allow inspections.

The agreement between Mr Andrei Kozyrev, Russia's foreign minister, and Mr Warren Christopher, US secretary of state, appeared designed to exert pressure on Pyongyang to make good its assurances to Mr Carter that it was willing to freeze its nuclear programme.

"We have developed a common approach towards a sanctions resolution which will integrate a possible international conference as well," Mr Christopher said.

Mr Kozyrev said: "Right now, we ehould show quite clearly thet sanctions would be inevitable if North Korea does not take any positive steps."

Mr Christopher said on Tuesday that the US was ready to put the campaign for UN sanctions in aheyance if North Korea confirmed the assurances it gave to Mr Carter.

A senior US official said the proposal agreed with Mr Kozyrev meant an initial phase of sanctions against North Korea would take effect 30 days after a resolution was enacted by the Security Council. Mr Kozyrev said: "These 30 days should be used for the international conference, to avoid the sanctions which of course are an extreme measure."

The conference would include representatives of the UN, IAEA, South Korea, North Korea, China, Japan, Russia and the US, American officials said.

Reuter

South Korea's Foreign Minister Han Sung-joo answers questions at a press conference on plans for talks with North Korea

Beijing to double telecoms spending

By Tony Walker in Beijing

China plans to spend Yuan450bn ($52bn) on tts telecommunications network to the year 2000, double previous estimates and including $7bn in funds from abroad.

Western experts in Beijing said the jump in projected spending reflected a recognition by the government of a need to accelerate provision of telecommunications services to match China's commercial aspirations.

Mr Wu Jichuan, minister of posts and telecommunications, said the funds would be used to instal sophisticated switching equipment; provide 30,000km of optical cables and 15,000km of digital microwave lines; build land satellite stations and purchase sophisticated letter sorting equipment.

Investment in telecommunications has been rising rapidly in the past few years with expenditures increasing from Yn40.4bn in 1993 to this year's budget of Yn53.6bn.

Mr Wu said a "email amount" of the telecommunications' funding requirements would be covered by capital grants from the state. The bulk would come from domestic and overseas loans.

China plans to have 110m lines installed by 2000. This would be sufficient, according to telecommunications experts, to service 30 per cent of urban dwellers and 5 per cent of those living in rural areas.

Mr Wu said China would be the world's largest telecommunications market next century. "Foreign investment is encouraged in all areas except the direct management of telecommunications businesses or gaining control of a company through buying stock," Mr Wu told the official China Daily.

China is making determined effort to source most of its telecommunications requirements locally by 2000.

Western experts say China will be "pretty well self-sufficient" in switching gear by the year 2000. They also expect the Chinese will seek more sophisticated items from the international market to build its electronic "super highway".

Omo and Persil under analysis as Unilever and Procter differ over triazacyclononanes

Scientific press takes up detergent wars

By Tony Jackson and Clive Cookson

The soap war between detergents giants Unilever and Procter & Gamble has bubbled over into a new arena: the scientific press. Today's issue of the leading science journal Nature carries a highly technical analysis by 13 Unilever scientists of Persil Power and Omo Power, the detergent recently launched by Unilever across Europe.

Procter has claimed the new powder, which was developed at a cost of several hundred million pounds, damages clothes.

The paper gives a wealth of technical detail on the manganese-based catalyst – known as the Accelerator – which allows the new powder to wash at much lower temperatures. However, it does not address the two main charges levelled by Procter: that the Accelerator harms fabric, and that the manganese builds up in clothes over repeated washings.

The magic ingredient in the new powder turns out to be a complex of manganese metal with a series of organic chemicals known as triazacyclononanes. It acts by speeding up the bleaching process which removes stains.

The traditional bleach in detergents is hydrogen peroxide, which is slow to act at temperatures below 60°C. According to Unilever's researchers, powder containing the Accelerator is two to three times more effective at removing tea stains from cloth at 40°C than the current generation of European powders.

Unilever said the article had been written before the row with Procter had erupted. "We felt it was not an article on the general use of detergents, but on the chemistry of manganese catalysts," the company said.

● Ronald van de Krol adds from Amsterdam: Unilever said sales of Omo Power in the Netherlands fell in late April after Procter's claims were publicised. Sales have partly recovered after widespread newspaper advertising, hut remain below the "excellent" results when the product was first launched.

The company has asked Dutch shops to put stickers on Omo Power recommending it be used at 40°C or 60°C. Test results have shown that damage to clothing is highest when the detergent, designed for low temperatures, is used at 90°C.

Political jostling could lead to bruising transatlantic row

Salinas joins race to head WTO

By Damian Fraser in Mexico City, Guy de Jonquières in London and Frances Williams in Geneva

The race to head the World Trade Organisation, the successor to the General Agreement on Tariffs and Trade, has entered a new phase with the deciaion hy President Carlos Salinas of Mexico formally to put his name forward.

His nomination was confirmed as it emerged that South Korea plans to become the first Asian country to propose a candidate for the WTO. The name, believed to be that of an experienced trade policy-maker, will be announced in Seoul today.

Meanwhile, a note of uncertainty was injected into tha European Union's plans to back Mr Renato Ruggiero, a former Italian trade minister, for the post, when officials in Brussels said he might not be formally endorsed by EU leaders at their Corfu summit this weekend.

The officials said that though Mr Ruggiero remained the only declared European entrant, EU leaders wera expected only to discuss his candidacy informally in Corfu. They would probahly leave it to their foreign ministers to deal with the question next month.

Mr Salinas' decision to enter the race comes earlier than expected, and almost two months before the electioo in August which will choose his successor as president when he steps down after a six-year term in December.

His nomination follows his broad eodoraement at last week'a Ibero-American summit hy the heads of all Latin American states except Brazil, which has proposed Mr Rubens Ricupero, its finance minister, for the post. "My personal feeling is that the US, as well as Canada and most Asian countries, will support the Salinas candidacy," Mr Manuel Tello, Mexico's foreign minister, who is running President Salinas' WTO campaign, said.

Mr Salinas is the best known of three candidates to have declared so far. A committed free-trader, he was the driving force behind agreement on the North American Free Trada Area embracing the US, Canada and Mexico. While he is widely considered to hava outstanding political credentials for the WTO post, his nomination could further complicate a decision on a candidate. That likelihood would increase if he were actively supported by Washington, while the EU promoted Mr Ruggiero.

In that event, some international trade officials helieve, the outcome could be a hruising transatlantic confrontation, into which other countries could be drawn, or a stalemate which could open the way for a compromiss candidate. Furthermore, Mr Salinas' candidacy threatsns to divide Latin America if Brazil stands by its nomination of Mr Ricupero. Mr Tello has written to Mr Celso Amorim, Brazil's foreign minister, asking him to withdraw Mr Ricupero's name.

He said Mr Amorim told him on May 30 that Brazil would reconsider its position if Mr Salinas chose to run, and had assured Mr Salinas Brazil would look favourably oo the candidacy of the Mexican president. Since then, Brazil appears to have persuaded Argentina to retreat from the backing it gave Mr Salinas at the Ibero-American summit in favour of Mr Ricupero. Mexico says it has not been informed of any change in Argentina's stance.

Salinas (left) free-trader; Ruggiero (centre) uncertainty; Ricupero (right) backed by Brazil

Singapore Airlines in $10.3bn order

By Paul Betts, Aerospace Correspondent

Singapore Airlines (SIA) yesterday placed one of the world's higgest aircraft orders – for 52 Boeing and Airhus large wide-body airlinera, worth $10.3hn (£6.68bn).

The order surpasses the $8.6bn order SIA placed in 1990 and covers 22 Boeing 747-400 jumbos worth $4.9hn and 30 Airbus A340-300E long-range airliners worth $5.4bn.

Both the US manufacturer and its European rival competed fiercely for the SIA order in view of the reluctance of airlines to commit themselves to significant new aircraft purchases.

Earlier this year SIA told the hidders it planned to huy a combination of Boeing and Airbus wide-body airliners, but it also suggested it would consider opting for just one aircraft type if it got a sufficiently attractive proposal, further intensifying the competition.

However, SIA finally opted for a mix of 399-seat Boeing 747s and 271-seat A340s, which it will deploy on long-haul routes that do not require the capacity of a 747.

All three leading engine manufacturers, Pratt & Whitney and General Electric of the US and Rolls-Royce of the UK, were competing to supply power equipment for the new SIA aircraft.

SIA selected Pratt & Whitney engines for its new 747s and CFM engines jointly developed by GE and Snecma of France for the A340s.

Although Rolls-Royce was regarded as an outsider in the SIA competition, the decision is a disappointment for the UK aero-engine manufacturer.

Of the 22 Boeing 747 airliners, 11 are on firm order and the rest on option. Of the 30 A340s 10 are on firm order and 20 on option. The total value of the firm orders placed by SIA is $4.25hn.

SIA said it had the flexibility to convert the options to other aircraft types. The Boeing 747-400s can be converted to any of the three models of the new Boeing 777 twin-engine wide-body aircraft, while the A340-300E options can be converted to the twin-engine A330 or another version of the A340.

SIA, one of the world's most profitable airlines, expects to finance the orders froio its cash flow, but if necessary it will resort to borrowing or leasing.

The new aircraft, to be delivered from 1996 to 2003, will expand SIA's fleet as well as replace older aircraft. SIA at present operates 63 aircraft and expects to see its fleet grow to 111 aircraft hy 2003.

"The latest order is an expression of our faith in the long-term health of the aviation industry and the promising future of SIA," said Dr Cheong Choong Kong, the airline's managing director.

Lucas Aerospace, the aerospace arm of the UK engineering group, yesterday signed a $10m joint venture agreement with the Taikoo Aircraft Engineering Company (Taeco) based in Xiamen, on the south coast of China, to establish an aviation repair and overhaul facility for engines, flight control systems and other aerospace equipment.

The venture, 65 per cent owned by Lucas and 35 per cent hy Taeco, will begin operations in early 1996. Taeco itself is a joint venture in which partners inclnde Cathay Pacific, Singapore Airlines and Japan Airlines.

Quotas for EU TV programmes come under fire

By Emma Tucker in Brussels

Television quotas in European Union countries are damaging development of Europe's audio-visual sector and work against the interests of the film producers, rights holders, artists and technicians they are supposed to protect, according to a report published today.

Prepared hy consultants London Economics on behalf of Sony Europe, the report argues that quotas are anti-competitive, harmful to the promotion of European television production, a drag on the creation of jobs and culturally ineffective.

Its findings come amid indications from the European Commission that it is willing to consider changes to the existing broadcasting directive. This directive recommends that EU-based TV chanuels allot at least balf their broadcasting time to European-made programmes "wherever practicable", excluding time allotted to news, sports, games, advertising and teletext services. It also says at least 10 per cent of programming budgets should be devoted to European works from independent producers.

Earlier this week Mr João de Deus Pinheiro, commissioner responsible for the audio-visual sector, said proposed changes to the directive would not be anti-American and quotas would not be tightened.

The existing qnotas are intended to nurture Europe's broadcasting industry, and protect social and cultural values from the strong competition of cheap US imports.

But the report – based on studies of TV in France, Germany and the UK – says quotas are anti-competitive as they do not affect the programme output of wsll estahlished channels such as the BBC, ZDF and TF1 (which already exceed quota requirements), but that of new entrants.

"Quotas make it more difficult for new entrants to compete, either hy reducing the attractiveness of their schedules as a result of switching out of imported programming, or by forcing up their programming costs," says the report.

The Economic Impact of Television Quotas in the European Union, London Economics, 91 New Cavendish Street, London, W1M 7FS.

Li presses for power progress

China's premier, Mr Li Peng, has urged speedier progress in negotiations on a $2bn (£1.3bn) power project in southern China involving GEC-Alsthom and Chinese partners, Tony Walker reports from Beijing.

Lord Prior, GEC chairman, said in Beijing yesterday Mr Li had left no doubt he was anxious for the project to move ahead quickly because of electricity supply problems.

Lord Prior, who met Mr Li on Tuesday, said he expected negotiations on the coal-fired Jiaxing plant in Zhejiang province to finish next year, but financial discussions were proving complex.

This will be GEC's first power project in which it will take an equity atake through a build-operate-transfer (BOT) funding arrangement.

Taiwan in aerospace talks

Taiwan is renewing its efforts to enter the commercial aerospace business, after earlier partnership negotiations, first with McDonnell Douglas of the US, then with British Aerospace, collapsed, writes Paul Betts, Aerospace Correspondent.

A Taiwan aircraft company, Aero Industry Development Centre, said it was considering producing aircraft components for a new McDonnell Douglas 100-seater twin angine aircraft, the MD95.

AIDC officials have held talks with the US company, which two years ago failed to forge a $2bn (£1.3bn) commercial aerospace alliance with Taiwan. McDonnell Douglas was proposing to invite 10 partners jointly to produce the new aircraft.

CONTRACTS & TENDERS

Greenspan seeks to allay inflation fear

Fed chief aims to bolster confidence in dollar

By Michael Prowse in Washington

Mr Alan Greenspan, Federal Reserve chairman, yesterday sought to bolster international confidence in the dollar by arguing that many investors were too pessimistic about the outlook for US inflation.

He said an increase in US long-term bond yields this year was to be expected given faster economic growth and an increase in global demand for capital. But long-term rates were higher than they needed to be, because they embodied an excessive "inflation premium".

"I think that the inflation premium is too high, that nominal long-term rates... are higher than they should be" and would decline if the Fed held "inflation increasingly to a path of stabla prices".

This situation was partly a lingering consequence of high US inflation in the 1970s which undermined confidence in US monetary policy. The inflation premium in long rates reflected a "still sceptical world financial market view that American fiscal and monetary policies retain some inflation bias".

Speaking before the House budget committee, Mr Greenspan did not comment directly on the dollar but instead tried to address fears underlying heavy recent selling.

There had been some "recent firming of prices of some products and raw materials". However, "owing to constrained increases in unit labour costs, broad measures of producer prices for final goods have not genarally reflected tha increases in those input costs. In addition, monetary and credit growth remains quite muted."

The outlook for inflation was thus "quite reasonable" and monetary policy was "dedicated to ensuring it remains that way". Mr Greenspan gave no sign that present inflationary pressures were sufficiently intense to require another increase in short-term interest rates in the near future. He seemed, instead, inclined to wait and see what effect the rate increases already announced would have on prices and output.

Questioned about deficiencies in the consumer price index, he agreed that it overstated the underlying rate of inflation for various technical reasons.

The upward bias probably lay in the range of 0.5-1.5 percentage points, he said.

This would imply that the "true" rate of inflation was closer to 2 per cent than nearly 3 per cent, as indicated by the official index. It would also imply thet real short-term rates were higher than generally assumed.

Mr Greenspan cantioned against assuming certain levels of unemployment or industrial capacity utilisation would automatically trigger upward pressure on inflation.

He said manufacturing capacity utilisation, at a shade under 83 per cent, was well above its historical norm. However, "there is no clear-cut trigger point for capacity utilisation as a signal for emerging inflationary pressures".

He also reacted sceptically to claims by some economists that the US jobless rate, now 6 per cent, was at or below the "natural rate" of unemployment – a national threahold below which inflation is assumed to begin accelerating. The "enormous complexity and dynamism of our labour markets" made such calculations impractical.

He would watch carefully for signs of resource pressures in the labour market.

Hopes rise on healthcare bill

By George Graham

Senator Danial Patrick Moynihan yesterday promised that the Senate finance committee he chairs would start detailed drafting work on a healthcare reform bill next Monday, possibly signalling that President Bill Clinton's deadlocked reform initiative may at last be starting to move forward again.

The finance committee has long been regarded as the key to the healthcare bill. Because the committee's membership of nine Republicans and 11 Democrats, including several centrist swing voters, closely mirrors the political balance of the full Senate, any bill that could not win the committee's backing is reckoned to have little chance of final passage.

Mr Clinton and Mr Moynihan hava angaged in a tug-of-war over the last few days. The bookish New York senator has repeatedly insisted that legislation guaranteeing universal health insurance coverage cannot pass Congress this year, whila Mr Clinton has refused to back down on what he calls his single non-negotiable demand. Mr Clinton this week begged business leaders not to walk away from the healthcare debate, and castigated rival reform plans that might end up covering only 91 per cent of the population.

"Unless we can provide coverage for every American in a reformed system which focuses on both quality and control of costs, the deficit will grow, your costs will continua to grow and undermine productivity, and more and more Americans will lose their coverage or be at risk," Mr Clinton told the Business Roundtable, a gathering of the heads of some of the US's largest companies. By agreeing to schedule a committee "mark-up" on Monday, Mr Moynihan seems to have blinked.

Risky strategy to fend off Republican challenge in elections

Democrats hit at 'religious right'

By George Graham in Washington

Democratic party organisers, searching for ways of heading off a possible landslide of defeats in November's congressional elections, have embarked on a strategy of attacking the rival Republican party as a captive of radical, religious right-wingers.

The plan is a risky one that could backfire in areas of the US such as the south and west, where conservatives and Christian evangelicals dominate the electorate.

Many Democratic strategists, however, believe religious extremism could become a "wedge issue" they can use to peel voters away from their opponents – just what they need at a time when some of them fear their party could lose as many as 45 or 50 of its 256 seats in the 435-seat House of Representatives, throwing control to the Republicans.

Mr Vic Fazio, the California congressman who chairs the Democratic congressional campaign committee, sketched his party's line of attack in a speech in Washington this week in which he said the Republican party was now dominated by a radical and intolerant fringe group.

"The Republicans accept the religious right and their tactics at their own peril, for these activists are demanding their rightful seat at the table, and that is what the American people fear most," Mr Fazio said.

Democratic candidates in Pennsylvania, California, Oregon, Missouri and Idaho have already launched attacks in a similar vein on their Republican opponents, calling them extremists and "mouthpieces for the radical right."

The attacks have been fuelled in recent weeks by Virginia Republicans' choice of Mr Oliver North, the controversial Iran-Contra figure, to run for a Senate seat, by the Texas party's choice of a new chairman backed by religious groups, and by Minnesota Republicans' selection of a Christian right candidate for governor in preference to the sitting Republican governor.

President Bill Clinton, pictured addressing business leaders, is struggling to avoid Republican party victories in congressional elections in November AP

Republican party officials and the Christian Coalition, a right-wing religious organisation that has worked to get Republicans elected in many states, hit back by accusing the Democrats of "Christian bashing" and religious bigotry.

And some Democratic campaign managers cautioned that their party had to be very careful to focus its attacks on its opponents' positions on issues such as abortion, school syllabuses and the position of women, and to avoid being seen as attacking people for their religious beliefs.

The charge of religious extremism could prove effective in reducing the electability of Republican candidates in suburban areas.

But it is likely to be counterproductive in rural districts, especially in the south, where as many as half of the voters may count themselves as born-again Christians.

Mr Fazio said the 1990 redrawing of district boundaries bad made many more districts competitive and reduced the Democrats' incumbency advantage. In addition, of the 49 seats left open by a sitting member's retirement, 30 are currently held by Democrats.

"Of those 30 seats beld by tbe Democrats, we classify only two 'likely Democratic'. The other 28 are extremely marginal and could go to either party on election day," Mr Fazio said.

Dissatisfaction witb President Bill Clinton and continuing distrust of Washington incumbents also make the Democrats' task more difficult.

But while Republican party strategists are confident of being able to build on this to fashion a substantial victory in November's congressional elections, some warn that they will need to develop a much more positive message if they want to win back the White House in 1996.

Colombia poll victor denies drug cartel link

By Sarita Kendall in Bogotá

Colombia's president-elect Mr Ernesto Samper yesterday vehemently denied accusations that his election campaign had benefited from contributions by the country's Cali cocaine cartel.

A tape containing conversations allegedly detailing possible contributions was released in Bogotá yesterday, only three days after the the election success of Mr Samper, a member of the ruling Liberal party.

The tape was released by Mr Samper's defeated opponent, the Conservative Mr Andres Pastrana. He was given the tape in Cali just before the election and passed it on to outgoing President César Gaviria. The prosecutor general is investigating the case.

Mr Samper said his campaign treasury had not received any money "of doubtful origin" and offered his accounts to the prosecutor general for examination. Mr Pastrana played the tape and said it could not in any way be interpreted as involving his own campaign. He asked Mr Samper to issue a statement saying he would resign as president-elect if it was shown the Liberal treasury had received money from drug traffickers.

Three conversations are recorded on the tape, the first two allegedly between a journalist and a senior member of the Cali cartel. The third is between the same journalist and a man considered to be leader of the Cali group.

Nicknames and elliptical references are used in the conversations as well as some direct mention of figures in the presidential campaign. At one point the journalist says multi-million dollar contributions are needed and the answer is: "Those are there. That is defined."

The context suggests this refers to the Samper campaign. However, transcripts of the tape released in the Bogotá press also refer to a meeting with a member of Mr Pastrana's campaign, and to contacts with independent law-and-order candidate Mr Miguel Maza Marquez, who later backed Mr Samper after defeat in the first round.

Diplomats have said they would be surprised if some drug money had not entered the campaign of both the run-off candidates, though they stressed this could have occurred without the candidates' knowledge.

Addiction or taste in battle for smokers' allegiance

By Richard Tomkins in New York

Are US tobacco companies deliberately manipulating the amount of nicotine in cigarettes to keep the nation's 46m smokers addicted? Damning evidence presented to Congress this week seemed to suggest as much.

On Tuesday, a House of Representatives sub-committee heard allegations that Brown & Williamson Tobacco, a US subsidiary of Britain's BAT Industries, had secretly developed a genetically engineered tobacco called Y-1 that contained more than twice the amount of nicotine found in normal tobacco plants.

Mr David Kessler, commissioner of the US Food and Drug Administration, told the committee that B&W had earlier denied breeding tobacco plants for high or low nicotine levels: yet the company had several million pounds of Y-1 tobacco stored in US warehouses and had been using it in five domestic brands of cigarettes.

Mr Kessler's purpose in presenting the evidence was to bolster his case for bringing cigarettes under his agency's control. Previously he has threatened to regulate cigarettes as drugs if it could be shown that manufacturers intend peoplе to buy them to satisfy a nicotine addiction. At the hearing on Tuesday he said there was no longer any doubt that the tobacco industry was manipulating and controlling nicotine levels in its products.

B&W will reply to the allegations at a further hearing today, but it has already accused Mr Kessler of blowing the issue out of proportion. There was nothing secret about Y-1, it said: it was just one of a variety of domestic and foreign tobaccos used by the company to provide the unique "recipe" of ingredients that went into each brand.

In reality, the history of Y-1 is almost an irrelevance. At issue are two questions: first, whether cigarettes are addictive, and second, whether manufacturers intend them to be addictive. If the answer to both questions is yes, the FDA may be able to bring them under its jurisdiction as a drug.

That manufacturers control the levels of nicotine in their cigarettes is not in doubt. In the 1940s, nicotine and tar occurred in cigarettes at more than three times today's levels, but manufacturers gradually reduced them through refinements in the processing technique to satisfy demand for smoother and lighter cigarettes.

So why not eliminate nicotine altogether? Because, say manufacturers, it is an essential contributor to cigarette flavour. When nicotine levels in cigarettes fall below a certain point, smokers no longer enjoy them. So companies adjust the nicotine level and other flavour-enhancing ingredients of each particular brand by using blends of tobacco leaves. "Y-1 was a blending tool for flavour," B&W said.

Mr Walker Merriman, vice president of the Tobacco Institute, the industry's trade association, said yesterday that consumer preference was the specific reason for having a particular level of tar and nicotine in any particular cigarette. One or two US brands had almost insignificant levels of nicotine, he said, but commanded very low market share, and earlier no-nicotine brands had failed through lack of demand.

Mr Kessler has recently backed off from earlier suggestions that tobacco manufacturers deliberately "spike" their products to keep smokers addicted, but has more recently said it is sufficient to show that cigarette manufacturers have the ability to control the level of nicotine in their products and have allowed it to remain at addictive levels.

The industry position is that cigarettes are not a drug as defined in the 1938 Federal Food, Drug and Cosmetic Act because they "do not intend to affect the structure or any function of the body". In any event, manufacturers say, smoking cannot be addictive because more than half of US citizens today who have ever smoked have quit – more than 90 per cent of them without professional help.

Mr Kessler's ultimate objective appears to be to bring the tobacco industry under his agency's control so that he can force manufacturers gradually to reduce levels of nicotine in their products and so wean smokers away from the habit.

Critics say a possible risk in such a policy is that it could lead smokers to smoke more cigarettes to compensate for the loss of nicotine intake, so increasing their exposure to the carcinogenic ingredients of cigarettes without hurting industry profits.

On past form, however, it will be a long time before things get this far. If the FDA moved to take control of the industry, the tobacco manufacturers would undoubtedly take the agency to court. Armed with vast resources of cash and extremely experienced lawyers, they would stand a good chance of emerging unscathed.

Until now, US courts have taken the view that the hazards associated with smoking are so well known that anybody taking up the habit assumes all the risks involved. In the eyes of the courts, the industry, it seems, is blameless: it has never lost a case yet.

Anti-smoking campaigners, health officials and industry experts in the UK were yesterday in broad agreement that the world beyond the US had little to fear from the Y-1 high-nicotine tobacco, the commercial use of which was revealed this week by Mr David Kessler, head of the US Food and Drug Administration, reports Jimmy Burns.

Mr Stephen Woodward, deputy director of ASH, the anti-smoking lobby said: "Our experience of tobacco companies is that any new product that is judged to give a competitive advantage, very quickly spreads throughout the industry".

However, ASH said that it had no evidence to contradict the assertion by BAT Industries, parent of Brown & Williamson Tobacco of the US which developed cigarettes containing the Y-1 strain, that these had been largely withdrawn after proving unpopular with consumers.

Mr Woodward said he did not believe that Y-1 has been widely used on unsuspecting guinea pigs in the Third World. Tobacco companies, he pointed out, have no problems in the Third World marketing high-nicotine high-tar cigarettes without having to resort to new technologies.

His views were echoed by Mr Nicholas Wall, a professor in environmental protective medicine at St Bartholomew's Hospital, London.

"I can't see who would want to go through all the trouble and expense [in the Third World where] there is less reason to use high-nicotine strains of tobacco because there has been less public pressure to reduce tar yields," he said.

Kessler: accused of blowing the issue out of proportion

WORLD CUP

Testing time for middle men

Peter Berlin in San Francisco on the role of the referees

Tucked away in the corners of US bookshops is a depressing collection of World Cup titles. There are shelves piled with beginners' guides that explain the world's game in the language of John and Janet.

One of the better publications is by Pete Davies, a British author, called *Twenty-Two Foreigners in Funny Shorts*. Any American who has taken an interest in the matches so far will know that Davies gave his book the wrong title. This is a game for 25 foreigners in funny shorts.

Fifa, world soccer's governing body, has changed the officials' uniforms from dull black to eye-catching patterns in yellow and red. Fifa wants *lots* of red and yellow from the referees, and has given instructions that were bound to increase the attention focused on them.

Joao Havelange, Fifa's president, announced before the competition that any referee who did not show a red card – and thus expel a player from the game – for a tackle from behind would find himself on the first flight home.

There have been enough nasty tackles from behind to fill a segment which ESPN, the US sports network, has been showing at half-time during matches, but, after the first five days, only Miguel Nadal of Spain had been sent off for such an offence, and no referees had been spotted at the airport.

One Fifa official told me that Havelange had been speaking figuratively. But this did not mean that the threat lacked bite. Referees who did not follow Fifa directives would not be selected to referee matches in the later rounds.

It was even possible that a referee who especially upset the referees' committee might be pulled from a first-round match he had already been assigned to. In other words, referees who are seen to make mistakes cannot expect support from Fifa; instead, they will get a public humiliation designed to make clear that they, not Fifa, are at fault.

In truth, Fifa wants black and white (and yellow and red) where there is often only grey. When top athletes tangle at high speed, with arms and legs all over the place, it is often impossible, even with slow-motion replays, to determine whether the tackler touched the ball or the opponent first.

And players exploit that doubt. Defenders often try to make sure they connect with ball *and* opponent; the attacker's first reaction is often to fall to the ground as if shot. Understandably, referees have been inconsistent.

American newspapers, which bow to no-one in the art of second-guessing referees, ran pictures showing that Thomas Dooley of the US played the ball in the crucial tackle from behind in the US-Switzerland game. The referee gave a free kick but did not send Dooley off. From the kick, Switzerland's Georges Bregy scored.

Unsurprisingly, Fifa offered a clarification. Sepp Blatter, Fifa's general-secretary, said: "If the tackling player does not touch the ball then he should be sent off. If he takes the ball away then obviously he has played the ball."

Nevertheless, waving a red card is still a drastic action from which referees flinch. Khalil Azmi, the Moroccan goalkeeper, escaped unpunished after a frontal assault on Belgium's Josip Weber which saved a certain goal. Azmi had the presence of mind to stay down injured and have himself carried from the field. It takes a degree of courage to wave a red card at a man on a stretcher.

In general, referees have appreciated a little help. Marco Etcheverry of Bolivia barely poked Lothar Matthaus in the bottom with the toe of his boot. But the German captain, always willing to guide the referee, turned on Etcheverry in indignant fury. Result: a red card. The Russians pushed and wrestled the Brazilians all afternoon; it was only when they sent their opponents flying through the air that the referee, An Lan Kim Lee Chong of Mauritius, reacted.

Referees have been inconsistent in handling the tackle from behind, and have largely refused to interfere when attackers hack into defenders and defenders shove back. But they have been refreshingly steady on a couple of modern soccer's nastier fouls.

A glimpse of raised studs when the ball is on the ground, or raised elbows when the ball is in the air, inevitably attract a penalty. The latter has not been a problem so far: unlike their British counterparts, most players at the finals do not seem to believe that they must raise and lower their elbows vigorously to jump for headers.

Referees have also responded with a will to Fifa's demand for increased productivity. By Tuesday evening, 47 yellow cards and two red cards had been waved at players in the first 13 matches, up from 30 yellow and four red four years ago.

And yet the soccer has been far superior. There have been a few cynical fouls, but games have not been dominated by foul-minded defenders. On the other hand, it is not clear yet whether the blizzard of yellow cards has helped produce the sparkling play, or resulted from over-reaction to what fouling there *has* been.

Blatter is in no doubt where the credit belongs: "It is such a pleasure, after what we have done to improve refereeing over the past three years, to see how good the refereeing is here."

However, nearly 20 per cent of first-choice players are one mis-step away from a suspension. If Fifa's decision to ban Etcheverry and Nadal for two matches, instead of the more usual one, is a sign of intent, many teams could find themselves with gaps in their line-ups in the knock-out stages.

Since most of the missing players will be defenders, that will tip the balance even more towards attackers. No doubt that is what Fifa and the watching billions want.

German striker Jürgen Klinsmann goes down after a challenge in Tuesday night's 1-1 draw with Spain Picture: Reuter

Norway braced for Italian backlash in toughest group

Erland Johnsen and the rest of Norway's defence are bracing themselves for an Italian backlash in their World Cup Group E clash in New Jersey today. "E" is considered the toughest of the six first-round groups. Qualifying matches for the second round continue for another week.

"The Irish did us a favour by showing us that it is possible to play our way in this heat but they didn't do us a favour by beating Italy," said the Chelsea defender. Ireland beat Italy 1-0 last weekend.

"The pressure is now on Italy and that's a problem for us, having to meet them next. It's not going to be easy because they will be desperate to win," he said.

The Italians are seeking more than the three points that will put them back into group contention and restore their battered reputation. "We have to play like we're convinced we'll win," said Italian midfielder Demetrio Albertini. "We let Ireland dictate the game to us when it should have been the other way round."

In the Italians' favour is that Norway felt the strain of their late win over Mexico. "We were all knackered after the game against Mexico," said Johnsen. "These conditions are a definite advantage to the South American and Latin teams."

Ireland remain favourites to win the group. Johnsen said: "I'm sure Ireland will beat Mexico on Friday. They are very similar to us and Mexico will find it hard to play against that style. They don't like the muscular defensive play. You have to keep your concentration all the time. They showed with a couple of late chances that if you make a mistake they might punish you."

Striker Roberto Baggio was declared fit to play against Norway, having suffered an inflamed right Achilles tendon. But out for the game, and possibly the tournament, is mid-fielder Alberigo Evani, who strained his right leg in training. The injury appeared to be serious, team doctors said.

S Korean shipyard set for stoppage

Thousands of workers at the world's largest shipyard, in South Korea, plan to go on "temporary strike" during today's Group C match between South Korea and Bolivia in Boston. The labour union at Hyundai Heavy Industries in Ulsan, south-east of Seoul, said it plans to call a three-hour stoppage to enable its 25,000 members to watch the match.

South Korea need to beat the Bolivians if they are to reach the second round for the first time. They drew 2-2 with Spain last weekend with two goals in the last six minutes.

Hyundai union leaders said the plan for a temporary strike was part of their efforts to put pressure on their management, which had been unco-operative in months of wage negotiations. The union wants 13 per cent more; the company is offering 5 per cent. Hyundai's management called the planned strike illegal.

Prisoners in Bangladesh have already pulled the same stunt – going on hunger strike before relenting and agreeing to resume eating when their custodians agreed to let them watch World Cup matches live.

Easy victory for stylish Nigerians

A partisan Cotton Bowl crowd in Dallas cheered every Nigerian move throughout an easy Group D 3-0 victory over Bulgaria on Tuesday.

"I didn't believe it when I saw the crowd," said Rashidi Yekini, who scored Nigeria's first goal. "It was our first time in the World Cup and everybody loved us. That's why we had more confidence."

As expected, the Nigerians, African champions, showed an always-attacking approach that the crowd enjoyed. "I told my boys they want entertainment in the USA – good football with action," Nigerian coach Clemence Westerhof said. "We are not afraid. We came from far away to show that Nigeria can play football."

US coach banks on high-tech approach

It may not guarantee success, but the US team has an array of high-tech gadgets to help them assess rivals teams. Coach Bora Milutinovic's portable fax machine runs almost non-stop, his tape machines hum and the mail brings a steady flow of videotapes and publications.

The US team played Colombia last night in Los Angeles in their second Group A game. It is feared that US interest in the tournament will slump if the home team is brusquely bundled out.

By last Sunday night, the US players were reviewing computer-generated assessments of the previous day's 1-1 draw against Switzerland. The coach knows how many times opposing players went right, how many times left – and how many times straight up the middle.

Each US player gets an individualised videotape before each game, analysing opponents' styles and habits. Milutinovic has three videotape decks in his hotel room to prepare the materials. "In 1990, we just looked at videotapes of our opponents' games," US defender Paul Caligiuri says. "This is much more sophisticated."

Standings

GROUP A	P	W	D	L	Pts
Romania	1	1	0	0	3
Switzerland	1	0	1	0	1
USA	1	0	1	0	1
Colombia	1	0	0	1	0
GROUP B	**P**	**W**	**D**	**L**	**Pts**
Brazil	1	1	0	0	3
Cameroon	1	0	1	0	1
Sweden	1	0	1	0	1
Russia	1	0	0	1	0
GROUP C	**P**	**W**	**D**	**L**	**Pts**
Germany	2	1	1	0	4
Spain	2	0	2	0	2
S.Korea	1	0	1	0	1
Bolivia	1	0	0	1	0
GROUP D	**P**	**W**	**D**	**L**	**Pts**
Argentina	1	1	0	0	3
Nigeria	1	1	0	0	3
Bulgaria	1	0	0	1	0
Greece	1	0	0	1	0
GROUP E	**P**	**W**	**D**	**L**	**Pts**
Ireland	1	1	0	0	3
Norway	1	1	0	0	3
Italy	1	0	0	1	0
Mexico	1	0	0	1	0
GROUP F	**P**	**W**	**D**	**L**	**Pts**
Holland	1	1	0	0	3
Belgium	1	1	0	0	3
Saudi Arabia	1	0	0	1	0
Morocco	1	0	0	1	0

Today's games

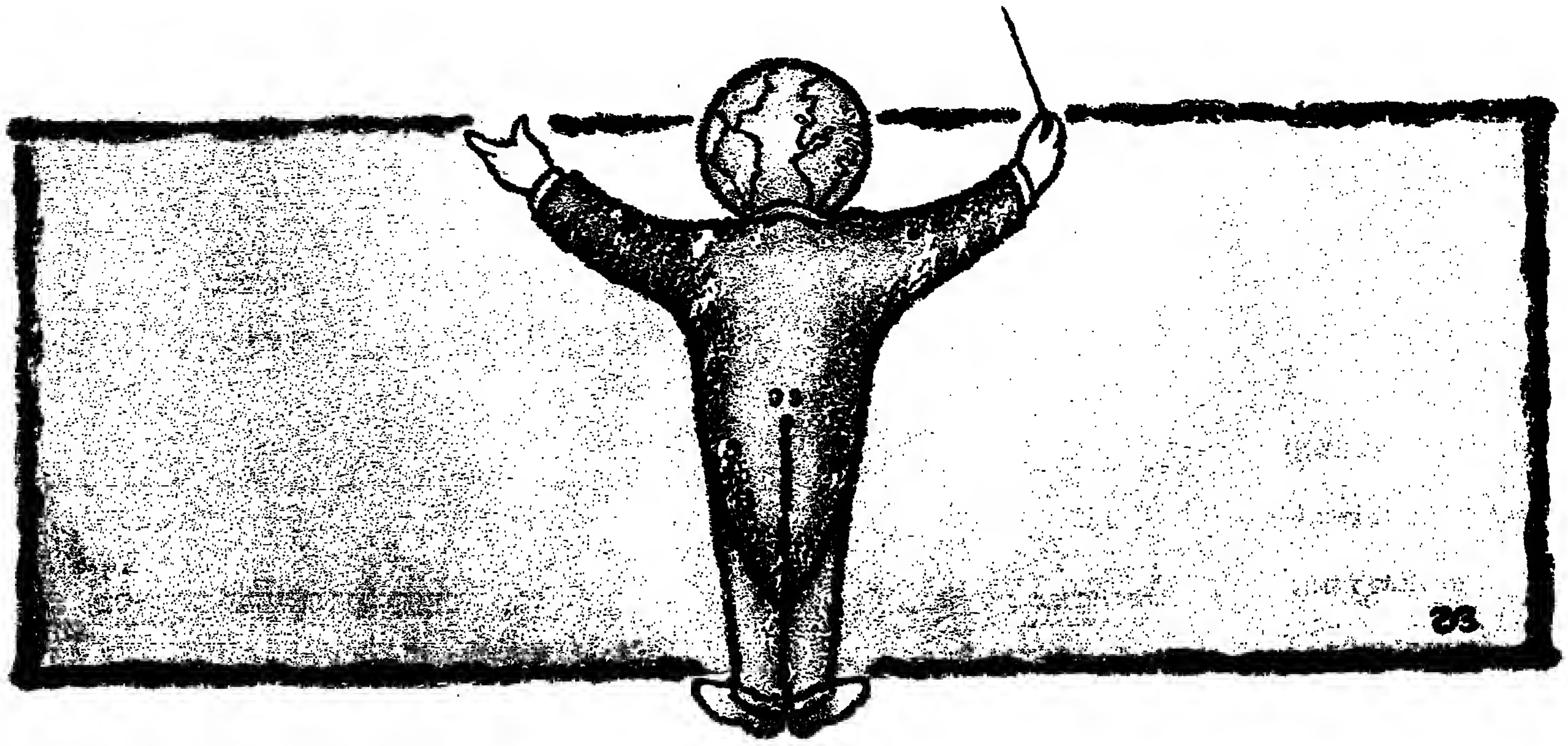
GROUP E
Italy vs Norway
New Jersey (9:00 pm BST)

GROUP C
South Korea vs Bolivia
Boston (12:30 am Fri, BST)

Quarter of Germany watches Spain game

In Germany, an estimated 25 per cent of the 80m population tuned in on Tuesday evening for the defending champions' 1-1 draw with Spain. The ZDF network said 20.2m viewers were ready at 10pm to watch the start of the game.

The draw gave Germany which beat Bolivia in its opener, four points in Group C and an almost sure passage to the second round.



...BT and MCI announce Concert.

It's the best of both worlds.

BT is the UK's largest company, and one of the world's leading suppliers of international telecommunications.

MCI is the second largest long-distance carrier in the US, and internationally one of the world's fastest growing.

Together, we've combined our resources, energies and know-how to create Concert. The first company ever to make fully integrated global telecommunications a reality.

Concert's range of services are available through BT and MCI.

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Treasury rules out quick interest rate rise

By Philip Coggan, Economics Correspondent

The "bias towards easing" in UK monetary policy appears to be over but an immediate increase in interest rates is unlikely, the Treasury disclosed yesterday.

Minutes of the monthly monetary meeting, held on May 4, show that Mr Kenneth Clarke, the chancellor of the exchequer and Mr Eddie George, the governor of the Bank of England, agreed that "it was not appropriate to change interest rates at the moment."

When the first set of minutes was published, in April, it was revealed that the chancellor and governor had adopted a "bias towards easing" in monetary policy, indicating that further rate cuts might be made. But in the May meeting, the two men seemed to move towards a more neutral policy.

The minutes show Mr George saying that "it now seemed less likely (although still not impossible) that interest rates would need to be cut further in order to prevent an increase in spare capacity. There was no longer a clear bias towards easing policy, but also no case (at least for the present) for a tightening either." The chancellor is then described as being "in broad agreement with the governor's assessment."

Since the meeting was held, the governor indicated in the annual Mansion House speech that a pre-emptive rise in interest rates, designed to prevent inflationary pressures from building, might be necessary at some point.

Mr Simon Briscoe, UK economist at S G Warburg, said that "the conditions are not yet in place for a rate rise. To get one in the next three to four months, we need something fundamental to change in the economy."

The May minutes show that while the governor and chancellor are mainly in agreement on the strength of the economy, they still have some differences of view on inflation.

Mr George said that "while inflation was likely to remain subdued in the near term, there were some risks surrounding the prospect further ahead." He pointed to strong monetary growth, a build-up of inflationary expectations and the rise in average earnings as three indicators of inflationary risk.

But while the governor said that the "increase (in average earnings) had occurred both sooner and faster than anticipated", the chancellor said that "the rise in earnings growth in recent months had been anticipated and reflected to some degree higher bonus payments and overtime." Both agreed that the earnings data had to be carefully monitored.

The two men concluded that there was little evidence, to date, that that tax increases had derailed the recovery.

Mr Clarke said "it would not be surprising if there was some short-term reaction to the tax changes, with consumer spending pausing temporarily before it started to move ahead again. But at this stage there were no signs of a sharp fall in consumption."

Row over government role in rail strike

By Kevin Brown and Robert Taylor

The row over the extent of government intervention in the rail dispute grew yesterday as the opposition Labour party claimed that transport secretary John MacGregor had threatened to veto any pay deal for signalling staff that breached the government's public sector pay bill freeze.

The claim followed a BBC radio interview in which Mr MacGregor appeared to agree with the interviewer's assertion that he would block any deal he did not like.

Mr Frank Dobson, Labour's transport spokesman said Mr MacGregor had made an "unhelpful" intervention, which made negotiations of a settlement "much more difficult".

Aides of Mr MacGregor said that he never used the word veto and that his remarks made in a BBC radio interview had been misinterpreted. The row was dismissed by a Downing Street official as a media invention.

The transport secretary said that the government was "asking Railtrack to negotiate on the basis of the approach to public sector pay that the chancellor set last autumn".

He agreed he was in regular contact with Railtrack chairman Bob Horton.

Mr Horton said that he was being driven by a "business and commercial imperative" and he would not "buy peace" to end the signalling dispute.

About 1,000 trains ran yesterday despite the strike compared with a normal service of 15,000 though they carried few passengers who either did not know the services were running or feared they might not be able to use them to return home.

The RMT rail union said yesterday it was alarmed about reports that unqualified managers had been used to operate the signal boxes during yesterday's 24-hour stoppage.

Mr Jimmy Knapp , the union's general secretary has written to the Chief Inspector of Railways urging him to investigate the allegations.

Citing examples he said that "the possible disastrous implications of such practices are quite apparent and need no explanation".

"I am extremely concerned that in various parts of the country signalboxes and signalling centres are being operated by persons who have not been properly trained", complained Mr Knapp.

The RMT, which holds its annual conference in Liverpool next week, has announced two further 24 hour strikes for next Wednesday June 29, and for another on July 6.

The second one day strike on British Rail hit visitors too - this unhappy Swiss traveller was stuck in London en route for Edinburgh

Deadline set by City regulator

By Alison Smith

The Securities and Investments Board, the City's chief regulator, yesterday set a deadline of October 1 for independent financial advisers to decide whether to apply for membership of the new Personal Investment Authority.

The move gives fresh impetus to the PIA, which will be the watchdog for Britain's private investors, and came as the SIB gave the go-ahead for the body to begin operation in mid-July.

Yesterday's moves bring to a close a long debate over the controversial new watchdog.

The SIB's decision to set a firm deadline just over three months away will force independent financial advisers to apply for membership of the PIA, seek direct regulation by the SIB, or leave the investment business by the end of the year.

Fimbra, the existing regulator for independent financial advisers, and Lautro, the existing regulator for the life insurance industry, are intended to disappear altogether in October 1995.

Mr Andrew Large, SIB chairman, yesterday called on financial advisers and life companies which had not applied to the PIA, to do so immediately.

Moreover, the trade associations for independent financial advisers, which had previously urged their members to delay applications, now say they should not wait any longer. They had previously been among the most vocal opponents of the PIA, claiming that new regulatory arrangements reflected a "hidden agenda" to cut the numbers of independent financial advisers.

As it completed the formal process of approving the PIA as a suitable regulator, the SIB emphasised it would exercise close supervision to see that the watchdog delivered higher standards of investor protection than existing arrangements had done.

CD pricing probe to clear music industry

By Michael Skapinker, Leisure Industries Correspondent

The Monopolies and Mergers Commission is expected today to clear the music industry of over-charging consumers for compact discs.

The commission is also expected to say that although a small group of retailers accounts for a substantial share of the market, this does not operate against the public interest. The commission report will be the second important victory for the music industry this week. On Tuesday, the High Court rejected a bid by George Michael, the pop star, to have his recording contract with Sony declared unenforceable.

The music industry feared that if George Michael had won, other artists would have attempted to change their contracts.

The commission's decision on CD prices was widely expected, but retailers were uncertain whether or not action would be recommended against them. A finding that retailers are acting properly in selling CDs will come as a relief to the companies concerned.

A report last year from the cross-party national heritage committee said W.H.Smith, Our Price, Virgin, Woolworth and HMV together controlled 54 per cent of music stores.

The MMC's inquiry, launched last year, is expected to find that UK compact disc prices are the lowest in Europe.

Although CDs cost more in the UK than in the US, the commission is expected to conclude that this is in line with differences in the price of other consumer goods.

The commission's findings are expected to contradict the national heritage committee's report last year.

The committee, under the chairmanship of Mr Gerald Kaufman, the Labour MP, severely criticised both record companies and retailers for charging excessively high prices for CDs.

The committee said that while it had "found no evidence of formal or overt collusion, it considered that the major record companies and the retailers are effectively cartels, and indeed partly interlocking cartels."

Tougher code for regional aid

By Chris Tighe

The government is taking a tougher line on applications for regional aid from inward investors considering England as a location and indigenous companies wanting to expand.

The Department of Trade and Industry yesterday confirmed that it is now scrutinising applications for Regional Selective Assistance in England more stringently, as part of the constraints on public spending.

The tightening up on the allocation of RSA grants has not been publicly announced, but its effect is arousing concern among many of those dealing with inward investment, an internationally highly competitive field.

Mr Tim Sainsbury, industry minister, has been lobbied by development agencies and local authorities worried that the tougher approach will disadvantage the English regions in their pursuit of economic regeneration, as mobile inward investors shop around internationally for the best deal.

"If you aren't in the shop window, they won't come in and talk," warned one development agency boss yesterday.

Another said: "Securing inward investment is highly competitive, a grant regime is a major element in being able to secure projects." RSA allocations, he added, also had a great bearing on the competitive edge in international markets of indigenous English companies seeking grant aid for capital investment.

Mr Sainsbury's response to the complaints has been that since the recession is lifting, more projects are now bidding for funding and that more areas of England are competing, following last summer's redrawing of the Assisted Areas Map.

The DTI said yesterday this year's RSA budget for England - which includes an undisclosed number of commitments made in previous years - is £101m, compared with 1993/4's £89.2m. "There's no less money available overall, but we're being increasingly careful about who gets the money," said a spokeswoman.

But some economic development bodies are fearful the government's belief that the UK is now a highly attractive location for inward investment is lessening ministers' commitment to a grant regime.

Their worries have been heightened by the government's decision, unveiled in last month's competitiveness policy paper, to lay greater stress in granting RSA on the quality of jobs created. This policy may make it more difficult to win grants for projects offering the kind of less skilled work attractive to many jobless people in high unemployment areas.

There is also concern that the English regions are losing out not just to overseas competitors but to Wales and Scotland, whose applications for RSA are dealt with by the Welsh and Scottish offices.

Teachers 'should learn from Europe'

England's classroom teachers need to learn from colleagues in the rest of Europe if the country is to compete effectively, MPs heard yesterday.

Mixed-ability teaching and low expectations are allowing the least able pupils on this side of the Channel to slip further behind, with the Government's education reforms not going far enough to redress the balance, it was stated.

The evidence to the Commons' education select committee came from Mr Sig Prais, of the National Institute of Economic and Social Research, and Mr Roger Luxton, principal inspector from the London Borough of Barking and Dagenham.

They reported research into schools in France, Germany, Holland and Switzerland, where they found less difference between inner-city and other schools, and between children of different backgrounds within schools.

They blamed clear differences in teaching practices and organisation.

Continental teachers saw their role as ensuring that virtually all pupils reached the standard set for each year group, they said in written evidence. In contrast, English teachers tried to cater for the differing abilities of individual pupils, and ended up by reinforcing them.

"The better provision made in a great variety of aspects of Continental schooling – especially for those who are low attainers – leads to higher average standards and less variability," they said.

They did not advocate wholesale importation of Continental teaching practices, but said that many aspects of schooling in England "need to be reconsidered."

The British Horse Racing Board altered its rules to let racehorse owners sell advertising space on the sleeves and collars of jockeys' silks. The board, the governing body for horse racing in Britain, will also allow advertising on paddock blankets and the backs of stable lads' jackets.

Warning on Lloyd's agents

By Richard Lapper

The Lloyd's insurance market's relationship with new institutional investors could be damaged by Lloyd's agents who attempted earlier this year to dismiss some Names from their syndicates, a senior corporate financier warned yesterday.

The agents had acted in anticipation of new rules that guarantee Names continued participation in syndicates.

Sir Laurie Magnus, deputy head of UK corporate finance at Samuel Montagu, the merchant bank, told a London conference on corporate capital that failure by agents to "respect the spirit" of the new rules on pre-emption rights would be seen as "diabolical" by the investment community.

The rules are designed to allow the Names, whose assets support the market, to increase their participation in line with any overall increase in syndicate capacity.

Pending introduction of the changes last May, eight agents are understood to have written to Names – both individual and corporate – giving them provisional notice, effectively cancelling their participation as of December 31 this year.

Sir Laurie last year co-ordinated the launch of the London Market Investment Trust, the biggest of more than 12 new investment vehicles at the market.

Corporate investors pressed hard for Lloyd's to introduce pre-emption rights last year, when they supplied more than £800m to support syndicates.

Lloyd's syndicates obtain about 10 per cent of their capacity from corporate sources, but are seeking more funding as a result of the expected fall in the number of individual Names.

A new round of losses reported last month, which brought Lloyd's cumulative deficit since 1988 to £7bn, is expected to force many individuals to leave the market.

Sir Laurie said that most corporate investors were now focusing on new so-called "dedicated" investment funds in which they would back syndicates managed by one agency.

Britain in brief

Irish-based insurer for London buses

London Transport has been forced to set up its own Irish-based insurance company to provide affordable insurance cover to the 10 London bus companies which are due to be privatised later this year.

Routemaster Reinsurance, named after the best-known of London's red buses, is intended to fill a gap in the established insurance market which is reluctant to insure bus companies.

The new company will also allow newly established management buy-out teams, which have no operating record to put to the insurance industry, to buy insurance at reasonable rates, Mr Clive Pracy, head of risk management at London Transport, said.

Insurance premiums are expected to be the second largest cost item in the bus companies' accounts after wages.

This move by London Transport will be watched closely by the soon-to-be privatised train operating companies which also face problems in obtaining affordable insurance.

Initially, each of the 10 bus operators will become a shareholder in the new company though membership could be widened later to include bus companies from other parts of the UK.

Aid targets 'met by UK'

Britain's £2.2bn overseas aid programme was the sixth largest in the world and targeted closely on the needs of developing countries, Mr Alastair Goodlad, foreign office minister, told the Commons last night.

He said statistics soon to be published by the organisation for economic co-operation and development (OECD) would show that at 0.31 per cent of gross national product Britain's overseas aid budget was above the average for all donors in 1993.

Mr Tom Clarke, Labour's overseas aid spokesman, condemned the linkage between British aid and the sale of arms.

He cited the Pergau dam project in Malaysia as an example of the government's failure to target aid on countries in greatest need. He maintained that if the project appraisal documents and other information had been made public the provision of aid for the Pergau dam would never have been approved.

13 directors convicted

Thirteen company directors were convicted in criminal cases in the first quarter of 1994 compared with three in the previous quarter, the Department of Trade and Industry said yesterday.

A further four directors were disqualified for periods between two years and seven years as a result of civil proceedings.

Case put for equality

Companies need to be convinced there is a good business case for them providing equal opportunities for men and women in the workplace, Ms Kamlesh Bahl, the chairwoman of the Equal Opportunities Commission said yesterday.

"Employers must understand the economic arguments for equal opportunities", she added. "Our aim is to ensure we make the most of human potential and individual choice and that such strategies are cost efficient".

Investment at record level

Net investment by UK institutions rose by £2.2bn in the first quarter of 1994 to a record level of £15.4bn, the UK government's Central Statistics office.

Of that, the greatest single beneficiary were UK government securities which had a net inflow of £5.229bn, the highest single quarterly figure for investment in this category since at least the fourth quarter of 1992.

Newspaper war begins

Mr Conrad Black last night declared war in Britain's broadsheet newspaper market by cutting the weekday price of the Daily Telegraph to 30p, the price to which Mr Rupert Murdoch reduced the Times last September.

"This is war and no one goes to war in other than a sober mood but we are market leader and we will protect our position," said Mr Black, the Telegraph's chairman. He took the decision yesterday after consulting senior executives.

The retaliation came after 10 months in which the Daily Telegraph insisted it had no intention of cutting its price to match The Times.

But in April the circulation dipped below 1m for the first time in more than 40 years.

There was a further fall in May to 993,395 in circulation as The Times reached record sales of 515,000.

Mr Black said Telegraph sales were now above 1m but he was not "going to sit like a suet pudding" and allow any competitor to attack his share of the market.

TECHNOLOGY

Global gallery for Irish art

Niall McKay on plans to use the Internet to display paintings

Technology is an unlikely ally of art, but two private organisations in Ireland hope to change this. They aim to promote Irish art abroad by using digital technology to display paintings over the Internet, the international information network.

Toppsi is a Dublin-based bulletin board system, which has its roots in providing information systems for social services. Its founder, Martin Maguire, wants to hold an international art exhibition over the Internet. It will be initially targeted to 15 EU capitals and extended to include Toronto, New York, and Los Angeles, featuring local artists from each city.

Fifty paintings will be scanned in at each site, stored on a central server in Dublin, and then relayed over the Internet to art galleries and museums in each city. Each site will have a high-quality printer and prints will be sold for around £35 each.

Internet users will later be able to dial into the server in Dublin and download images of the paintings. Maguire also plans to publish the exhibition on CD. Another Internet provider based in Galway on the west cost has already taken steps to bring Irish art to the rest of the world. Ireland On-line is running a pilot scheme for Kennys book shop and art gallery.

Kennys is well known in academic circles as a provider of Irish-interest books. Its customers include US universities and libraries.

Kennys is also famous among the artistic community for its exhibitions of Irish artists. Driven by the need to communicate with its US customers and a desire to promote its art exhibitions, Kennys will put a database of all its books on the Internet and offer a free service for people who want to go on-line and get a sneak preview of the next exhibition. The service provides biographies of the artists and examples of their work.

One of the artists whose work is displayed on the system is Kenneth Webb, known for his watercolours and depictions of rural Ireland.

"In the early '60s and '70s I travelled a lot between Ireland, New York, Paris, London and even Africa, but now I am not interested in all that. I have my painting and my interests here so I think this is a great opportunity to display my paintings. The beauty is that this is a visual medium. I have never read anything that has done justice to my or anybody else's paintings, but with this people can see for themselves."

Webb believes there are further advantages in the concept of exhibiting paintings on an international network.

"International art has become very sterile; there is a sameness between paintings from almost anywhere in the world. It's made up of the sort of paintings that architects like. I see myself as more of an ethnic painter. I like to express the peculiarity of the landscape around me. This [Internet] will allow painters from anywhere in the world to be exhibited internationally."

Barry Flannigan, head of Ireland On-Line, sees a trade-off between the quality of the image exhibited and the cost of downloading that image. "It's a balance really; most computer screens have a resolution of about 75 dots per inch but we provide 150 dots per inch and include about 250 colours, which is a long way off being good enough to print lithographically. It's just a taster, if the user likes the painting then they can buy it."

Maguire has approached the problem from a different perspective, mainly because as well as providing the images over the Internet, he plans to produce CDs of the paintings. "The solution is so simple and already tried and tested. It's share ware. If people like the images then they can pay a licence fee to the artist."

Maguire has teamed up with the artist Paddy Graham, who says the potential of the Internet for artists is staggering.

"The question is whether technology will inhibit the intuitive process of an artist or simply expand it."

On-line for a speedy sale

Louise Kehoe continues a series on electronic retailing with a look at the growth of shopping by home computer

Want to send roses to your sweetheart, buy a new car, choose a cookbook for your mother's birthday or purchase computer software One of the quickest, if not the cheapest, ways to make these purchases in the US is via on-line computer information and communications services.

On-line computer shopping has been around for several years, but until recently most of the products available were aimed at computer hobbyists. Now the proliferation of home computers, with about one-third of US households equipped with a personal computer, is attracting the attention of a broad variety of retailers to on-line shopping as a potentially important new sales channel.

Prodigy, the on-line service jointly owned by Sears Roebuck, the US retailer, and International Business Machines, offers products from 125 merchants including Sears, Spiegel, Patagonia, L'Eggs tights and the US Postal Service. On CompuServe, another on-line service, choices range from a Brooks Brothers suit to contact lenses, life insurance or a honey-baked ham. America On-line allows subscribers to offer their homes for sale.

Shopping centres are also being built on the Internet, a global network that links an estimated 20m computer users. The Internet Shopping Network, for example, offers an "electronics superstore", offering more than 15,000 computers, software and related products.

Global Network Navigator, a free on-line service for explorers of the Internet, has its own "marketplace" which is supported by advertising revenues. While nobody is predicting that computer shopping will replace every trip to the mall, on-line merchandising is expected to grow rapidly over the next few years as multimedia technology becomes cheaper and more accessible to consumers.

To date, on-line shopping has generated only modest sales. Less than $200m (£132m) in goods were sold on-line in the US last year, compared with a total of $1,500bn retail sales (of which mail order catalogues accounted for $53bn) and $2.5bn in sales by television home shopping channels that take orders by telephone.

However, on-line shopping will generate about $4.8bn per year by 1998, Forrester Research, a US market research company, predicts. Growth will be driven by the proliferation of home computers and by improvements in on-line product presentation, Forrester researchers say.

The largest US publishers and retailers are rushing to offer their products on-line, says Gene DeRose, head of research at Jupiter Communications, a market research company that specialises in the on-line services market.

"For media companies, getting on-line means instant communication, new revenue streams and access to a fast-growing, high demographic customer base hungry for new services.

'Getting on-line prepares companies for all forms of electronic distribution'

"More importantly, getting on-line prepares companies for all forms of electronic distribution while selling their products today to millions of on-line consumers."

The low costs of selling on-line are a big incentive for merchants. In contrast to mail order marketing, which has high upfront costs for the publication and distribution of catalogues, retailers selling on-line have minimal start-up costs and typically pay only about $15,000 to $30,000 annually to reach millions of subscribers.

The market for on-line retailing is expanding as commercial on-line computer information and communications services such as Prodigy, America On-line and CompuServe expand. At year-end 1993, there were 3.9m subscribers to these services and this number should grow to about 5.2m by the end of 1994, according to Jupiter.

And the on-line services say their shopping centres are drawing more customers every year. The number of people coming into CompuServe's "Electronic Mall" has increased 80 per cent this year and sales are up by more than 30 per cent.

For consumers, the main attraction of computer shopping is convenience. The services draw "too busy, two-income families", say the merchants that are selling on-line. The computer can also provide new shopping opportunities for the house-bound or disabled,

A Chicago-based venture is offering grocery shopping by computer in Chicago and San Francisco

notes Peapod, a Chicago-based venture offering grocery shopping by computer in the Chicago and San Francisco areas.

With home computer software supplied by Peapod, San Francisco consumers can shop at their local Safeway supermarket without leaving home. On-line shoppers can either wander through the "virtual supermarket" aisle by aisle, as they might when making a weekly shopping trip, go directly to specific types of products like coffee or cereals, or type in the name of the product they want. Personal shopping lists, with the items you buy regularly, can also be created.

Special requests, such as ripe bananas or fine ground coffee beans, can be added to the shopping list. Special offers available in the store are highlighted on-line and money-off coupons are accepted. The grocery order is delivered at the shopper's convenience.

Bargain hunters may not, however, be impressed by computer shopping. Most of the merchandise available on-line is priced at, or above, the prices available in stores and delivery charges are typically added to the selling price.

Another shortcoming of computer shopping is that it usually lacks the pictures of products that are typically found in mail order catalogues. Although some on-line shopping services make pictures of products available, it typically takes several minutes to "paint" these pictures on to a home computer screen.

Multimedia PCs are, however, beginning to make computer shopping malls more attractive. CompuServe, for example, recently launched a CD-Rom catalogue to augment its on-line shopping service with pictures and videos of products available. The combination of CD-Rom and on-line ordering may be a winner, Forrester's market researchers believe. While each approach has its limitations, in combination they provide the immediacy of on-line shopping and the multimedia capabilities of CD-Rom.

Today's computer shopping services are, however, quite primitive in comparison to the "interactive shopping" planned by several US cable television companies. These services will feature full video and sound and may provide customers with "agents" to help them shop.

You might, for example, have decided to purchase a sweater and trousers but be unsure about which colours would look best together. Your personal shopping "agent" could lend a hand by displaying various combinations, or even make the decision for you.

It may be several years, however, before interactive television shopping becomes widely available because it will require substantial investments by the cable television or telecommunications industry in broadband networks.

In the meantime, on-line computer shopping is drawing both retailers and consumers in increasing numbers.

PEOPLE

Turton takes up arms for Citizens

A woman tipped as a future permanent secretary in Whitehall has been given the high-profile job of fronting the prime minister's drive to smarten up the public services. Genie Turton, deputy secretary in the environment department, becomes director of the Cabinet Office Citizen's Charter unit on July 11.

Turton, 48, is currently head of the cities and countryside group in the environment department and a member of the Chancellor's Private Finance panel.

She is one of the growing number of senior mandarins with experience of business, gained through the Cabinet Office programme for strengthening links between the public and private sectors. After a secondment to Midland Bank, she was a non-executive director of the Woolwich Building Society between 1987 and 1991.

A graduate of Girton College, Cambridge, Turton joined the ministry of transport as a fast-stream entrant in 1970. After a spell in the Cabinet Office as head of the machinery of government division in the early 1980s, she became director of heritage and royal estate in the environment department with responsibility for royal palaces such as Hampton Court and the Tower of London. In 1991 she was promoted to deputy secretary in charge of the department's housing and urban group. She lists her hobbies as books, music and shopping.

She replaces Brian Hilton, who returns to his old department, Trade and Industry, to take charge of the research laboratories. Hilton, 54, was spirited from the Ministry of Agriculture, Fisheries and Food in 1991 to create a unit that would implement Major's Citizen's Charter. He says he has hugely enjoyed the task of giving life to the charter: "It is now common currency in the language. It is inconceivable that we should ever return to the days when there were no standards of service in the public sector, and nobody cared whether performance targets were met."

■ Owen Jenkins, md of Kuwait Petroleum Benelux, has been appointed md of KUWAIT PETROLEUM (GB).

■ Martin Anderson, director, international corporate finance with Hill Samuel Bank, has been appointed finance director of HARRISONS & CROSFIELD.

■ Greg Tufnell, buying and merchandising director of Next men's business, is rejoining BURTON GROUP, as md on the retirement of Martin McNamee.

■ Danny Kitchen, formerly a director of IBI Corporate Finance, has been appointed finance director of GREEN PROPERTY.

■ Gareth Rhys Williams has been promoted to md of Rexham Custom, part of BOWATER.

Bodies politic

■ Peter Brown, European group md of Tomy Europe, has been elected chairman of the BRITISH TOY AND HOBBY ASSOCIATION.

■ Richard Rowlatt, chairman and md of J Rowlatt & Sons, has been elected president of the BRITISH HARDWARE FEDERATION.

■ Jennifer Francis, former chair of the National Women's Enterprise Development Agency, and Michael Reupke, former general manager of Reuters, have been appointed members of the RADIO AUTHORITY.

■ Bernard Legrand, executive vice-president of the Pechiney Group, has been elected president of the INTERNATIONAL PRIMARY ALUMINIUM INSTITUTE.

■ Bob McKinlay, former chairman of British Aerospace Airbus division, has been appointed president of the BRISTOL CHAMBER of Commerce and Initiative.

■ Bob Simpson, director of Newman Tonks Architectural Products Sub Group, has been elected president of the GUILD OF ARCHITECTURAL IRONMONGERS.

■ Peter Mitchell, strategic affairs director at GUINNESS, has been elected president of the WORLD FEDERATION OF ADVERTISERS.

■ Judith Shepherd, a partner at Stephenson Harwood, is to be seconded for two years to the TAKEOVER PANEL; Mark Gearing has returned to Allen & Overy and Charles Penney returns to Lovell White Durrant at the end of September.

LWT millionaire quits for the BBC

Nick Elliott, managing director of LWT Productions, has become the latest senior executive to leave London Weekend Television since its takeover by Granada earlier this year.

Elliott, who has worked at LWT for the past 22 years and played a leading role in developing programmes such as London's Burning, Agatha Christie's Poirot and The Charmer, is moving to the BBC as head of drama series. The head of the drama group is Charles Denton, himself a former ITV executive.

Elliott, 50, is a close friend of John Birt, the BBC director general but it is believed that Birt was not involved in the appointment. Elliott was approached by a group of BBC executives including Alan Yentob, controller of BBC1.

He made it clear yesterday that he was not leaving because of the Granada ownership; he had actually begun his career with Granada.

After working for LWT for more than 20 years, he had decided some time ago that he would like to change his job but for the past four years was prevented by LWT's "golden handcuffs" from moving.

As the former head of drama and director of programmes, Elliott benefited greatly from a management share scheme; he made around £3.5m from it. He says he will miss LWT greatly, but adds "the job the BBC has asked me to do is an exciting challenge that I could not resist".

His appointment is an indication that the BBC is trying to strengthen its popular drama and maintain its ratings on BBC1.

Meanwhile, the LWT board is in the process of reviewing the top management structure of the company and says a key objective is to facilitate the development and growth of LWT's programme production business.

'Minister without portfolio' becomes chairman of Barclays Metals Group

Barclays Metals Group, part of the UK banking organisation, is gearing up for a further phase of expansion with the appointment of Chris Green, one of the best-known personalities in the London metals business, as chairman. It is also recruiting Peter Sellars, at present managing director of the metals division of BICC Cables.

Sellars becomes deputy chief executive, working alongside Laurence Jones, also deputy chief executive of BMG, as well as managing director of Barclays Metals Ltd, a ring-dealing member of the London Metal Exchange.

BMG has grown quickly since Barclays decided to enter the metals business about three years ago.

Green, now 59 and with 36 years' experience in the industry, joined as a director soon afterwards. He had previously been forced out of Cerro Metals, where he was chief executive, because the new American owners were unhappy about his spending so much time as chairman of the LME board.

Leaving Cerro meant that Green was no longer eligible to serve as an LME director so he ended up losing not just one job, but two.

He said yesterday he no longer harboured ambitions for an LME appointment and, in any case, the BMG chairmanship would give him a "higher profile" in the industry. He had been "like a minister without portfolio" since joining Barclays, in that he had no particular responsibility.

Meanwhile, Sellars' role at BMG will be to concentrate on strategic development and Jones will continue to have responsibility for, among other things, Barclays' LME activities. Both report to Robert Malmprize, the chief executive.

■ Alan Baker, a director and head of bullion at Deutsche Bank Sharps Pixley, has been elected chairman of the LONDON BULLION MARKET ASSOCIATION.

Charged up over competition law

David Waller reports on why American Express's credit card promotion hit legal barriers in Germany

Produce a credit card in a German shop or restaurant and it is likely that the proprietor will look at you with consternation, before explaining that plastic is *strengst verboten* and that D-Marks or Eurocheques are the only means of payment allowed.

There are just 8.9m credit and charge cards in Germany, compared with 37m in the UK, making Germany one of the least developed plastic card markets among Europe's leading economies. Relative to the size of the economy and its 80m population, Germany is the most important plastic card market in Europe, says Colm Lorigan, senior counsel for Europe at American Express International in Frankfurt.

Cracking the market is no easy matter, though, and not only because of deep-seated cultural hostility to credit and charge cards. Marketing tactics which are standard in other countries can hit legal barriers in Germany, as American Express found after launching a promotion for its product in November last year.

That month, cardholders in Germany received with their monthly statement a brochure outlining American Express *Membership Miles*, a promotional scheme which the company has introduced in the US and other European countries. The scheme offered members bonus points for each D-Mark they spent on the card. These points could be used towards air travel with three airlines and hotel accommodation.

Although the programme was successful – spending by cardmembers enrolled in the scheme rose by 50 per cent – the promotion had to be quickly halted. Within a week of the launch, American Express was sued by an organisation called the Zentrale zur Bekämpfung unlauteren Wettbewerbs, the Centre for Combating Unfair Competition, a Wiesbaden-based body which has policed Germany's competition law since early this century. The company was charged with breaching the so-called *Zugabeverordnung*, a law which prevents the offer of free gifts in connection with the sale of goods.

The *Zugabeverordnung* goes hand in hand with the *Rabattgesetz*, forbidding the offer of certain types of discounts, and is connected with the *Ladenschutzgesetz*, which limits shops' opening times.

All three laws were introduced in the early 1930s to protect small shopkeepers from free competition, and are still popular with shopkeepers today. Last year the government unveiled plans to abolish all three as an unnecessary impediment to competition.

The amendments passed by the German parliament leave American Express 'stranded'

But so great was the uproar from shopkeepers and unions that Chancellor Kohl intervened personally to ensure that *Ladenschutzgesetz* would remain until after this autumn's elections. Contrary to the government's original plans, the *Zugabeverordnung* and the *Rabattgesetz* were not abolished but merely amended.

The amendments, passed by the German parliament last week, leave American Express "stranded", complains Lorigan.

Under the revised *Rabattgesetz*, service providers such as the Bundesbahn, the federal railway network, or Lufthansa, the soon-to-be-privatised German airline, can offer discounts to their own customers. But American Express is caught by the *Zugabeverordnung*, which still holds that the offer of another company's products (in this case, flights) is not permitted as a means to boost your own sales (in this instance, spending on the American Express card).

Lorigan said that American Express introduced the product – with launch expenses of at least DM1m – knowing that there could be legal difficulties. But it had hoped that the *Zugabeverordnung* and the *Rabattgesetz* would be abolished.

The legal structure of the offer was also designed to take advantage of EU legislation guaranteeing free trade of goods and services across European borders: the offer to German card-members is technically administered out of France.

But recent European Court case law has gone against American Express, suggesting that foreign companies operating in a second country cannot claim that their freedom to trade is being muzzled if domestic competitors suffer the same restrictions.

While American Express prepares an intensive lobbying campaign in the US and Europe to support its case, Lorigan claims that it has suffered discrimination at the hands of the Zentrale because it is a foreign company. He notes that the bonus scheme started by Lufthansa – the Miles and More promotion which has attracted 900,000 members since last year – was permitted by the Zentrale last year even when it was manifestly in breach of the *Rabattgesetz*.

Marcus Kisseler says the American Express scheme is in breach of the Zugabeverordnung

Marcel Kisseler, head of the Zentrale, dismisses the claim. He says the American Express scheme is in breach of the *Zugabeverordnung*.

After an unsuccessful appeal against the original lawsuit, American Express is now permitted to continue with the service, but not to advertise it. This means that it is effectively dead as a promotions tool, and will remain so for years as litigation with the Zentrale continues.

Back from the brink

Alison Smith on Norwich Union's troubles in an increasingly tough regulatory market

At least there was no army of aggrieved consumers. But the public relations crisis facing Norwich Union this summer in the wake of its highly embarrassing regulatory troubles has been serious by any standards.

The problem first surfaced publicly on 29 March when the company, one of the UK's largest insurers, announced that its 600-strong direct life insurance and pensions sales force, as well as some 200 sales agents in companies acting for the insurer, were being temporarily suspended for retraining.

That statement came some months after NU had identified serious weaknesses in its selling process which it had begun working to rectify. Unfortunately for the company its initial plans were overtaken by Lautro, the regulator for the life insurance industry, which insisted on more radical remedial action, including taking the sales force off the road for a month.

The March announcement meant that NU had to deliver an effective training programme within a short space of time. It then had to cope with another blast of bad publicity at the end of April, when Lautro imposed a record fine of £300,000 on the insurer for its failures to meet proper standards.

The new training programme is made up of three elements. The first entails sitting the Financial Planning Certificate, the basic qualification for independent financial advisers, which is administered by the Chartered Insurance Institute.

The second is a test of knowledge of Norwich Union products, covering both regulatory issues and the products themselves.

The third test involves a residential sales skills course, based on videoed role play: a sales agent interviews a colleague acting as a client and has to gather enough information to make a recommendation. The following day there is another videoed interview, in which the recommendation is put to the "client".

While the sales skills assessment has been praised by those who have taken part in it, NU has faced some criticism from participants for relying too much in the rest of the programme on sales agents studying by themselves and not enough on lectures.

Gary Cornish was among the 60 per cent of NU sales agents who passed all elements of the course at the first attempt. "The [sales skills] course was very well done. Before that course it was ludicrous, we were just told to read the manuals," he says.

One extra difficulty faced by NU was managing the introduction of a single training programme for both the direct sales force and appointed representatives – firms of financial advisers who do not work for NU directly but act solely for the insurer. Previously there had been two.

Philip Scott, NU life and pensions general manager, says that the appointed representatives, used to running their own businesses, were in some cases less inclined than the direct sales force to be told by NU how they should sell life insurance and pensions.

Significantly perhaps, the pass rate for all elements of the training programme at the first attempt was lower among appointed representatives – at 40 per cent.

Some sales agents have met negative reactions from customers

Robin Sainty, who runs Integrated Business Analysis which acts for NU, has a rather different perspective. His team of advisers has all passed the training programme and is enthusiastic about the changes to the training. But he is sharply critical of the way in which NU reached this point.

"We were very angry, particularly because we felt it was avoidable," he says. "There were enough people telling NU they were not happy with the quality of training." He believes the failure to act earlier was a symptom of a more general malaise of "corporate arrogance".

Scott and Jayne-Anne Gadhia, who set up the training arrangements, emphasise the benefits to those who have passed the programme. "The vast majority of them are proud of their achievement because they know they have been through a testing process," Scott says.

Whether that sense of pride is as strong for those who manage to succeed only at later attempts remains to be seen. Over the coming weeks the final stragglers will return to selling, while those who have failed at their last chance lose their authorisation.

Even among the first successful sales agents, there have been mixed feelings as they meet negative reactions from customers.

"When I first came back I was very pleased to have passed all the exams, but that has been followed by several lows," says Stewart Davidson, who joined NU last autumn, as he talks of decisions deferred and customers who have gone elsewhere in the meantime.

Sainty reports some negative feedback from potential, if not existing, customers, though he sees a longer-term benefit from the improvements in the sales process. "The next couple of months will inevitably be a bit sticky, but then we will be back beyond where we were: September is my target date for getting back into full swing," he says.

NU can take comfort from knowing that although it has been the first to face this difficulty, in an increasingly harsh regulatory climate, it is unlikely to be the last life insurer to do so.

Cinema/Nigel Andrews

Cautionary tales of the cultural divide

THE INNOCENT (18)
John Schlesinger

SHOPPING (18)
Paul Anderson

BEVERLY HILLS COP 3 (15)
John Landis

ROBOCOP 3 (15)
Fred Dekker

The tug-of-war custody hearing over the British film industry continues this week, with important new testimony from both sides.

The evidence produced on behalf of the first party, Mr America, is the movie *Shopping*. Paul Anderson's urban thriller – a loud, dark-toned, pacy British film made to the style of that currently popular retro-genre, "film noir" – will be used to show that Hollywood has been powerfully influential in the forming of modern UK screen culture.

But Miss Europe, who was of course Mr America's common-law partner until a recent quarrel involving a Gatt, will claim that John Schlesinger's *The Innocent* proves the opposite: that this version of Ian McEwan's Cold War novel set in moody murder-prone Berlin shows that the last best hope for British film is an alliance with our friends across the Channel. Look at the evidence. Exhibit A: Britisb director and leading man (Anthony Hopkins). Exhibit B: Italian leading lady (Isabella Rossellini). Exhibit C: German locations and co-funding.

Eacb side is then expected to attack the other mercilessly for its poor record of care and guardianship. Mr America will accuse Miss Europe of tovolving Britain in the deadly quagmire of the "Euro-pudding" and will point out certain specific shortcomings in *The Innocent*. Its peculiar *compote* casting, for starters. Why is Sir Anthony Hopkins playing an American army officer – with an appalling sub-James Cagney accent – while America's Campbell Scott (better accented) plays the young British telephone engineer Leonard, brought to Berlin in 1955 to help with an anti-Soviet surveillance scheme?

McEwan's novel was a bizarre blend of Le Carré spy stuff with sex, passion and murder. When Leonard falls for the German Maria (played to the film by the Italian Miss Rossellini), a nasty encounter with her busband ends in death and dismemberment. "What will the lovers do with the body?" becomes the novel's big question, until finally the object is folded cunningly, ironically into the espionage plot.

Schlesinger's film is best when most intimate. Scott excels as the fussy, virginal communications boffin marooned in a cut-off world – his dingy love nest – with the distraught, high-strung girl and the carnage she brings him.

But whenever the film moves out into the "real" world, all reality ceases. Schlesinger promises much with a virtuoso opening tracking shot through a crowded, babbling hotel lobby. But then the individual voices start. Hopkins'a "You dirdy rat" American; a number of German supporting actors dubbed into transatlantic; and finally Miss R herself, who is fine right up to the last scene when she too is tipped into the open air. Her scene of foggy-voiced tearful parting on a foggy airfield seems like a crazed reprise of her mother's finest hour to *Casablanca*.

After Mr America has had his say about *The Innocent*, and the mish-mash of vagabond ingredients typical of Euro-puddings, Miss Europe will have her say about *Shopping*. She will attack the delinquent tendencies of an ex-colonial culture based on the worship of crime and violence. *Shopping* which stars Sadie Frost and Jude Law as two car-stealing "ram-raiders," who like to enter shops through the shop window, is, she will point out, like *Bonnie And Clyde* meets *Absolute Beginners*, possibly over the prone body of *Blade Runner*.

Over-the-top visual atmospherics – mist and smoke, Stygian chiaroscuro, drizzle-haloed street lights – are wedded to daft script-lines. The exchange earning the largest giggle at the press show came when Mr Law ventures to plant a tentative kiss on Miss Frost's lips and she says "Cut it, Joe, this is the 90s. Sex isn't safe anymore." Nor, in ths wrong hands, is portentous epochal dialogue. Ths film is a second-rate, second-hand thriller in debt, far beyond repayment, to its Hollywood paradigms.

The judge presiding over the custody hearing will admit that he finds this case difficult to resolve. Each side, America and Europe, has powerful arguments concerning the decrepit artistic standards of the other. After long consideration, though, he has made his decision. He will award custody to neither party. He will instead urge and if necessary compel the British film industry to become self-reliant. For a short time it will be made a ward of court. Then it will be required to make its own way in the world with no more than a minimal reliance on any other nation.

It will not be allowed to beg at Number Ten Downing Street, nor to spend its life creeping towards the EC or US for cultural resuscitation. Soon rather than late it must learn how to please and interest other cultures and societies, *without* compromising its own culture or treating its own society as a charity institute.

After all (sums up the judge), if *Four Weddings And A Funeral* and *The Crying Game* and *A Fish Called Wanda* and *My Beautiful Laundrette* can do it, so can everyone else. Case dismissed.

'Bonnie and Clyde' meets 'Absolnte Beginners': Sadie Frost in Paul Anderson's 'Shopping'

In the week of *Beverly Hills Cop 3* and *Robocop 3*, what better time to distance ourselves from Hollywood? When sequel sagas hit stage three, three things happen. Script invention plummets. Plots reach for tortured novelties of location or motivation: in *BHC3* a theme park, in *R3* a whole lot of inner-city anarchy requiring emergency policing. And favourite actors drop out.

So no Peter Weller as Robocop. His lips and jaw – nothing else being visible below the hydraulically whining visor – are replaced by those of Robert Burke. And over in Beverly Hills no John Ashton, who for two films played fat-solemn police sidekick (alongside tall-slim Jndge Reinhold) to Eddie Murphy's grinning *dementia praecox* case from Detroit.

Mr Murphy has now been seconded to California so often that we wonder why he does not keep a hotel room there. *Beverly Hills Cop 3* is an exhausted replay of the old tics. Its desperation is most evident in the wheeling forth of Bronson Pinchot, wbo stole *Cop 1* with his fluttery, shrieking art gallery owner and who is asked to do it again here – no, to overdo it – so that he becomes victim rather than saviour.

Robocop 3 features another cop called Murphy (hero's name not performer's) and also begins in Detroit. But this film has the sense to stay tbere. Here is ths much-loved Motown sound: not Diana Ross but the music of crashing cars, screaming extras and our hero's bullet-zapping bio-metallic arms. Here too, for 20 minutes of tolerable reacquaintance, is Hollywood's attempt to force the futurist vision of Lang's *Metropolis* into intimacy with the weaponry of the *Star Wars* era. Then, like the other film, it tailspins into diminising circles.

Should they not have combined the two trequels and given us *Beverly Hills Robocop*? That way familiarity could have been spiced with hybridisation. And we would have warmed to the idea of a knockabout black cop clamped in a head-to-toe metal casing from which only the best wisdoms and witticisms would be allowed to emerge.

Alastair Muir

Compelling: Richard Briers and Paul Eddington

Theatre/Alastair Macaulay

Storey's 'Home' revived

You should have seen it with Gielgud and Richardson: the people who said that two years ago about David Leveaux's staging of Pinter's 1976 *No Man's Land* can say it again now about his staging of David Storey's 1970 *Home*. They are, of course, right – yet they miss the point. *Home*, like *No Man's Land*, is less substantial without its great original double-act, but it still holds together remarkably well. Its new cast, led hy the well-known double-act of Paul Eddington and Richard Briers, completely holds the attention, shifting between comedy and poignance with consummate ease.

This is the more impressive, since nothing happens in *Home* more eventful than a minor character lifting furniture and removing it from the stage. The "home" of the title, the play gradually allows us to realise, is an institution for the mentally disturbed. A large part of the play's comic entertainment consists of wandering small talk between the two men, and a large part of its painful impact lies in what they leave unsaid – with the anguish they can never bring themselves to address in words.

Harry and Jack are educated and clubbable upper-middle-class types, so sensitive that, if someone else so much as suggests that a spade might be a spade, they hasten to discuss the weather. The play's most striking irony lies in their conversations with the dissimilar Marjorie and Kathleen, who are lower-class, outspoken, quite prepared to air sexual, lavatorial, and psychological issues – and thereby expose the pathetic evasiveness of the two men.

It was Gielgud, as Harry, whose performance left the most indelible and affecting impression on me when in my teens I saw a TV broadcast of the original cast. Yst Paul Eddington's account of the same role is so fully alive to the larger mental issues that dwell amid the details of the play, that Gielgud's ghost never haunts the stage: an exorcism even more successful than his account of the Gielgud role in *No Man's Land*.

Eddington's Harry is a ravaged shell. It helps that he now looks far more haggard than two years sgo; more vital, however, is the beautiful weight of sorrow he conveys. It is there before be speaks a word, simply as he closes his eyes on first sitting down alone. And it is there at the end in the hush in which he says "The sun has set". His mastery of comedy surfaces to marvellous effect in tiny crises of uncertainty, as when Jsck asserts that a friend of his "was introduced to George VI at Waterloo". With utter tact, yet also with sppalled bewilderment, Eddington simply echoes "Waterloo?" "The station", Jack explains, and relief returns.

Every device in Richard Briers's armoury works to characterise Jsck to fine effect: light charm, merry chuckle, mouth hanging open in pleasant stupidity, ingratiating cuteness, spiffing delivery of ordinary banter. Briers does nothing wrong, but his way of tackling the role's inner misery is flyweight. Richardson hrought to the role, among other things, gravitas; and my ear kept telling me how he surely delivered the lines. Briers's mental pain remains hidden from us, as Eddington's does not. Nor is anything in Briers's performance a surprise.

The roles of Marjorie and Kathleen are harder to achieve with complete success. Storey gives them a kind of verbal shorthand, with few pronouns or verbs, that seems mannered now. This apart, both Brenda Bruce and Rowena Cooper catch the contradictions that make each roles interesting. Bruce's Marjorie is hard, sceptical, only sometimes revealing the tenderness that has made her sometimes wail for days; Cooper's Kathleen hardly ever lets a radiant grin leave her face, even as she talks of her several suicide attempts.

In terms of the larger history of modern theatre, *Home* is not a momentous play. It has clear echoes of Beckett (*Godot*, *Happy Days*), and its treatment of mental disturbance is scarcely radical. But so what? It is written with such skill that the sttention never flags, and its ambiguity of tone is compelling. I bave s few minor cavils about Leveaux's staging. (Some pauses sbould bave been weightier, the women are sometimes too close to caricature, the role of Alfred is miscast, and one change of lighting says too obviously "The mood darkens".) But everything about this 24-year-old play is alive; the ensemble playing is exemplary; and Eddington gives one of the finest performances now before the London public.

At Wyndham's Theatre

Concert/Richard Fairman

Sanderling's Brahms

The gigantic themed festivals that towered over London's musical life in the late 1980s have disappeared. In the present economic conditions the nearest one comes to anything similar is the short series, which is never so adventurous: the Philharmonia has scheduled a Beethoven symphony cycle next season and a Brahms cycle to end this one.

These would not be of any import, were it not for the conductors – Harnoncourt for the Beethoven, Kurt Sanderling for the Brahms. Keen record collectors may have come across a cycle of the Brahms symphonies with Sanderling and the Dresden Stsatskspelle. Although the sound quality from the original East German tapes was poor, there was no mistaking that here was one of the two great Brahms conductors of the day.

Those performances were characterised hy a strict, almost fierce, adherence to the ideal of Brahms as a classicist. Over the years Sanderling's outlook seems to have mellowed s little (can he really be 81 when he is only just starting to go grey?) but the classical discipline is still in place. His Brahms now is very much the product of maturity – wise and noble, absolutely unforced.

What a splendid move on the part of the Philharmonia to bring him to London for these four concerts, featuring the symphonies and the concertos. In Tuesday's opening programme he held the First Symphony to a steady pace, though without digging into the rhythms as trenchantly as he used to. He also kept the Philharmonia's enthusiastic timpanist firmly under wraps.

There was to be no over-emphasis, no hammering home of climaxes too early. Only a conductor who had years of experience would dare restrain the symphony for so long, holding off the resolution right until the triumphal brass chorale of the finale. In these last years Sanderling's mastery becomes ever more subtls and unpredictable, but it is there nonetheless. The Philharmonia, significantly Klemperer's old orchestra, played well for him.

The First Piano Concerto was more problematical. Sanderling set out at a magisterial pace, sinking down foundations of granite. Unfortunately, the pianist, Mitsuko Uchida, needed speed above all to compensate for her lack of weight. The result oscillated uneasily between one type of Brahms and another, hers headlong and shallow-toned, his patient and massive. Despite some exquisite moments in Uchida's slow movement, I know whose side I was on.

Sponsored by AFG, Automotive & Financial Group. The other three concerts are on June 26, 28 and 30

INTERNATIONAL ARTS GUIDE

■ ATHENS

ATHENS FESTIVAL
The international programme of the 1994 festival opens on Sat with a Three Divas concert featuring Grace Bumbry, Katia Ricciarelli and Lucia Valentini-Terrani. Riccardo Chailly and the Concertgebouw Orchestra give concerts next Mon and Wed, featuring Tchaikovsky'e First Piano Concerto (Lazar Berman) and symphonies by Brahms and Mahler. Other visitors over the next two months include the Peter Hall Company production of Hamlet, Cristina Hoyos Ballet and the Vienna Philharmonic, St Petersburg Philharmonic and Berlin Symphony Orchestras. Most events take place at the Odeon of Herodes Atticus (Athens Festival, 4 Stadiou Street, in the arcade. Tel 01-322 1459/ 01-322 3111)

■ BARCELONA

Richard Bonynge conducts performances of Lucia di Lammermoor at Palau Sant'Jordi on June 26, July 2, 6 and 10, with cast headed by Edita Gruberova and Alfredo Kraus (318 9122)

■ FLORENCE

MAGGIO MUSICALE
Semyon Bychkov conducts concert performances of Shostakovich's Lady Macbeth of Mtsensk tonight and Mon at Teatro Communals, with cast headed by Tatyana Poloektova and Jan Blinkhof. Lorin Maazel conducts Pittsburgh Symphony Orchestra on Tues in works by Rakhmaninov and Ravel. The Maggio Orchestra brings ths festival to an and next Thurs and Fri with Beethoven'a Ninth Symphony (055-277 9236)

■ GENOA

Teatro Carlo Felice Sat and Sun afternoons, next Tues evening: Gianandrea Gavazzeni conducts final performances of Filippo Crivelli's production of Leoncavallo's operetta La reginetta delle rose, with cast headed by Denia Gavazzeni Mazzola and Luca *Canonici (010-589329)*

■ LONDON

THEATRE
● The Cryptogram: world premiere of David Mamet's new play about the relationship between a woman, her child and a male visitor. Stand-up comedian Eddie Izzard makes his serious acting debut alongsids Lindsay Duncan. Now in previews, opens next Wed (Ambassadors 071-836 6111)
● Glengarry Glen Ross: Sam Mendes directs David Mamet's 1983 all-male classic about real estata salesmen whose insecure egos thrive or perish in the claustrophobic atmosphere of a downtown office. Just opened (Donmar Warehouse 071-867 1150)
● The Birthday Party: Sam Mendes' revival of Harold Pinter's second play features Bob Peck, Anton Lesser, Dora Bryan and Nicholas Woodeson. In repertory at the Lyttelton with Richard Eyre's new production of Sweet Bird of Youth, Tennessee Williams' 1959 drama (National 071-928 2252)
● Murder in the Cathedral: Stephen Pimlott directs a new RSC production of T.S. Eliot's greatest play. In repertory with Ibsen's Ghosts, directed by Katis Mitchell (The Pit 071-638 8891)
● Arcadia: Tom Stoppard's witty and mind-expanding masterpiece, combining intellectual debate with depth of feeling. Roger Allam and Joanne Pearce head Trevor Nunn's new cast in this West End transfer of a production originally staged at the National (Haymarket 071-930 8800)
● The Queen and I: Pam Ferris *plays the Queen in Sue Townsend's* stage version of her bestselling novel which places the Royal Family on a housing estate. Directed by Max Stafford-Clark (Royal Court 071-730 1745)
● Copacabana: Barry Manilow's musical opens tonight with Gary Wilmot in the lead role (Prince of Wales 071-839 5987)
● *Fiddler on the Roof: Topol* returns to play Tevye in this 12-week season of the Bock and Harnick musical. Now in previews, opens next Tues (London Palladium 071-494 5021)
● A Midsummer Night's Dream: Deborah Paige directs Shakespeare's supernatural tale in the open-air setting of Regent's Park (Open Air 071-486 2431)

OPERA/DANCE
Covent Garden The Royal Ballet gives the world premiere on Sat of Ashley Page's Fearful Symmetries, set to music by John Adams, as part of a mixed bill including MacMillan's Danses concertantes and Winter Dreams. There are also performances of Anthony Dowell's staging of the Baryshnikov production of Don Quixote next Wed, Thurs and Sat. The Royal Opera has a new production of Aida, conducted by Edward Downes and staged by Elijah Moshinsky, with cast headed by Cheryl Studer, *Luciana D'Intino*, Alexandru Agache and Robert Lloyd (071-240 1066)
Coliseum ENO's season runs till July 2 with performances of Jenufa, La boheme and Peter Grimes (071-836 3161)
Sadler's Wells London City Ballet presents Coppelia tonight, tomorrow and Sat. The Cape Ballet, a *multi-racial dance group from South* Africa, opens a two-week season on Tues with the first of two programmes (071-278 8916)

CONCERTS
South Bank Centre Tonight: Midnight Follies Orchestra pay tribute to Adelaide Hall of the Cotton Club. Sat: Mark Shanahan conducts Forest Philharmonic in Berlioz's La *Damnation de Faust, with Adrian* Martin and Della Jones. Sun, next Tues and Thurs: Kurt Sanderling conducts Philharmonia Orchestra in works by Brahms. Wed: Edward Downes conducts BBC Philharmonic in Delius, Holst and Elgar, with cello soloist Lynn Harrell (071-928 8800)
Barbican Tonight: Kent Nagano conducts LSO in works by Ravel, John Adams and Prokofiev, with violin soloist Gidon Kremer. Tomorrow, Mon and Wed: Borodin Quartet continues its cycle of Shostakovich string quartets. Next Thurs: Mariss Jansons conducts LSO, with piano soloist Alfred Brendel (071-638 8891)

■ MADRID

Teatro Lirico La Zarzuela Tomorrow, Sun, next Tues: Antoni Ros Marba conducts José Carlos Plaza's production of Wozzeck, with cast headed by Gerardo Vera, Anja Silja and Graham Clark. Mon: Maria *Bayo song recital (01-429 8225)*

■ MILAN

Teatro alla Scala Tonight: Pierre Boulez conducts Ensemble InterContemporain in works by Varese. Mon: Wolfgang Sawallisch conducts revival of Giorgio Strehler's production of Die Entführung aus dem Serail, with cast headed by Mariella Devia, Barbara Kilduff, Kurt Moll and Kurt Streit (repeated June 29, July 1, 4, 5, 7, 9, 12). Next Tues and Thurs: Rigoletto (02-7200 3744)

■ RAVENNA

Highlights of this year's Ravenna Festival includa a concert tomorrow by the *Dresden Staatskapelle* under Giuseppe Sinopoli, the Scala Orchestra under Wolfgang Sawallisch on July 3, a staging of Bellini's Norma starring Jane Eaglen on July 16 and performances of Verdi's Requiem conducted by Riccardo Muti on July 20 and 22 (0544-32577)

■ SPOLETO

The 1994 festival opened last night with a Poulenc double-bill - his surreal opera Les mamelles de Tirésias paired with a reconstruction of Nijinska's original choreography for Les Biches (repeated June 25, 29, July 1, 3, 6, 9). Wozzeck opens on July 2 in a staging by Günter Krämer, conducted by Christian Badea. The dance programms features Ballet National de Nancy et de Lorraina (opening tonight with guest soloist Alessandra Ferri), Martha Graham Dance Company (June 29-July 3) and Roland Petit's *Ballet National de Marseille* (July 5-9). The drama programme includes the St Petersburg Maly Theatre and Arthur Miller's The Last Yenkee (Tickets and information from Teatro Nuovo 0743-40265)

■ TURIN

Teatro Regio Tonight, Sat, Sun afternoon, next Tues afternoon and Thurs: Bruno Campanella conducts Roberto De Simone's production of La Cenerentola, with cast headed by Jennifer Larmore/Susanna Mentzer, Rockwell Blake/Mario Zeffiri, Enzo Dara and Michele Pertusi (011-881 5214)

■ VERONA

Arena Ths season opens on July 8 with Bellini'a Norma. This year'a programme also includes La boheme, Otello, Aida and Nabucco, plus a gala for Placido Domingo on August 9 (045-596517)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

European Cable and Satellite Business TV

(Central European Time)

MONDAY TO FRIDAY
NBC/Super Channel: FT Business Today 1330; FT Business Tonight 1730, 2230

MONDAY
NBC/Super Channel: FT Reports 1230.

TUESDAY
Euronews: FT Reports 0745, 1315, 1545, 1815, 2345

WEDNESDAY
NBC/Super Channel: FT Reports 1230

FRIDAY
NBC/Super Channel: FT Reports 1230
Sky News: FT Reports 0230, 2030

SUNDAY
NBC/Super Channel: FT Reports 2230
Sky News: FT Reports 0430, 1730;

Enigma at the heart of the bloke

He's blokeish, with a hail-fellow-well-met quality, always popping up on our television screens or disturbing a quiet breakfast by trying to outshout the presenter of BBC radio's *Today* programme. But Kenneth Clarke, Britain's chancellor, is still a puzzle.

He defies easy categorisation. He hails by tradition and intellect from the left of the Conservative party, but has nevertheless spearheaded some of the most bruising confrontations between government and recalcitrant employees such as doctors, ambulance workers and teachers. Although a stickler for upholding the powers of Parliament, he has facilitated a steady increase in the Bank of England's say in monetary policy. Then there is the sartorially challenged Clarke with his famously crumpled suits and suede Hush Puppy shoes. These are shouting out a message of some sort: but what?

This book, in spite or perhaps because of being "completed with Mr Clarke's full co-operation", leaves the reader still unclear as to what really makes this ambitions politician tick. However, author Malcolm Balen, the editor of BBC TV's *Nine O'Clock News*, has provided the next best thing in this readable account of the ups and downs in a career that put Clarke in charge of the UK's health, education, law and order and now the Treasury.

It would be a heroic story if John Major had not already overcome greater handicaps in his background to become prime minister. But the tale of the Nottinghamshire watch-repairer's son (from what Tory canvassers would identify as a C2 skilled working-class family) who resolved early in life to become an MP and who has climbed high enough up the Tory party's greasy pole to eye the prime minister's job is still sufficiently unusual and topical to be worth telling.

Of obvious importance were the scholarship successes to the upmarket Nottingham High School and to Cambridge, and the discovery of like-minded souls at university who were later to form a "Cambridge mafia" of friends and rivals in the Tory governments of the 1970s and 1980s. A

KENNETH CLARKE
By Malcolm Balen
Fourth Estate, 302 pages, hardback £18.99

stable family life, which Clarke takes care to keep out of the public eye, and outside interests such as jazz have doubtless given him greater staying power than many politicians.

But the story is not without its dark moments. Clarke's mother developed a drink problem when he was in his teens and, according to his younger brother Michael, died an alcoholic. While Clarke's childhood appears to have been happy enough, Balen suggests that he started early in life to fashion a tough outer shell.

Many people in these pages describe Clarke as "self-contained". Balen says his subject is "a gregarious man who is intensely private" and "an uncomplicated enigma". For Michael Clarke, "Ken is like an iceberg. Seventy five per cent of him is underwater. To get where he's got, he must be like that. I'm not saying his personality is a façade – it isn't – but there's a very large inner person. He can be very emotional. But he tends to detach himself."

That submerged 75 per cent no doubt helpad Clarke through the frustrations of the 1980s. As not "one of us" he failed for many years to prosper under Mrs Thatcher. He only entered the cabinet in 1985 and then as Commons spokesman for the employment secretary, Lord Young. Once in high office, Clarke developed a talent for getting into fights.

A love of controversy had always been there. The book recounts how, as head of the Cambridge University Conservative Association, Clarke had caused an almighty row by inviting Oswald Mosley, the head of the British fascists in the 1930s, to speak. He rode out the storm but it delayed his rise to the politically important post of president of the Cambridge Union, the students' debating society. Similarly, Balen says Clarke's later battles with doctors and ambulance workers "set back his career and ultimately cost him a place in the leadership race when Mrs Thatcher resigned".

That Clarke is now chancellor is a measure of the policy failure that culminated in sterling's exit from the European exchange rate mechanism and the presentational ineptitude of Norman Lamont, his immediate predecessor.

Balen's book, which finishes with Clarke's tax-raising Budget of last November, wisely steers clear of predicting whether the chancellor will move next door to Number 10 Downing Street. For Clarke's performance at the Treasury will be crucial in determining whether he will one day succeed John Major as prime minister or leader of the opposition.

Clarke has so far been both lucky and skilful in running his second (after the Home Office) of the three great offices of state. From the hapless Lamont, he inherited an economy with low inflation and low interest rates that was recovering from recession. He had the guts to tackle the problem of the annual £50bn deficit head-on through unpopular tax rises.

True, "Clarkes" took a pounding earlier this year on the Westminster gossip exchange when the import of the tax increases dawned. But with the economy still growing and the setback that John Smith's death caused to the leadership hopes of Michael Heseltine, trade and industry secretary, Clarke's stock appears to be rising again – at least within the Tory party.

The nagging worry, which Balen's book does nothing to dispel, is whether Clarke is an accident waiting to happen. The book chronicles how ill considered remarks when health secretary exacerbated his disputes with the doctors and ambulance service. There was also the television debate after Black Wednesday's ERM exit in which he admitted that he had never read the Maastricht Treaty.

Such mishandling can be excused and overcome in a battle against vested interests. But will financial markets be so forgiving if they turn against the pound and this chancellor?

Peter Norman

Held up on the western line

Leyla Boulton says Latvia's tough citizenship rules are a blemish on its international image

"Closer than Switzerland" says the advertisement for a large private bank in the newly independent state of Latvia, which nestles between Russia and the Baltic Sea. The slogan could apply to the entire country, as it tries to rejoin the capitalist west from which it was torn by Stalin in 1940. With a strong currency and hopes of becoming a financial centre, Latvia is emerging as an island of relative economic stability within the former Soviet Union.

However, Latvia's ambitions for a speedy reintegration with the west are threatened by a political problem which has festered for the past three years: whether non-Latvians, who make up almost half the population, should be given citizenship. On Tuesday, the Latvian parliament finally passed a law giving non-ethnic Latvians born in the country a chance to apply for naturalisation by 2000. But it imposes draconian citizenship quotas on non-Latvian residents who were not born in the country.

These quotas mean Latvia is unlikely to join the Council of Europe, the 32-nation forum for human rights and democracy regarded as a stepping-stone for integration into western Europe. This is because such organisations, as part of their membership requirements, insist countries should not leave residents stateless. More importantly, the Latvian parliament's decision means any longer-term ambition to join the European Union and Nato – which Latvia sees as its best guarantee of security and independence – has been pushed further into the distance.

Mr Hugh Hamilton, local representative of the Conference on Security and Co-operation in Europe, the 52-nation forum regulating borders and security, said yesterday: "International opinion in general will be expressing concern that this law really does not accord with the norms of the western community which Latvia has been seeking to associate itself with."

Mr Valdis Birkavs, Latvia's prime minister, recognised the new difficulties created by parliament's vote when he told deputies: "Let us cherish no illusions that we will wriggle out, thet nothing bad will happen. These quotas can only complicate matters."

The ramifications are considerable. The curbs on citizenship will hinder economic progress because citizenship brings the right to own land as well as to vote. They are also hampering Latvia's attempts to mend relations with Russia and restore trade ties damaged by the collapse of the Soviet Union.

Had it been able to devise a more internationally palatable solution to the citizenship issue, Latvia would have been better placed to build on its economic strengths. Since recovering its pre-war independence in 1991, Latvia has run a near deficit-free budget. Its currency, the lat, is fully convertible and last year appreciated against the main western currencies. Under the monetarist stewardship of a fiercely independent central bank, inflation and recession have been milder in Latvia, and in next-door Estonia, than in their former Soviet neighbours.

Latvia's GDP contacted by 12 per cent last year but has returned to modest growth this year. An inflation rate of 35 per cent last year is forecast by economists to fall to about 20 per cent this year – low by the standards of the former Soviet Union. High real interest rates and lack of foreign exchange controls have attracted capital fleeing instability elsewhere in the former Soviet Union. Mr Alexander Rannikh, Russian ambassador to Latvia, described the country as "a Switzerland for second-class capital which is not ready for Switzerland but unsafe in Russia".

But the financial orthodoxy which has made Latvia a favourite of the International Monetary Fund contrasts sharply with its clumsy handling of its demographic arithmetic. As a result of the migration of Russians, Ukrainians and Byelorussians to work at factories built under Soviat rule, ethnic Latvians today account for only 52 per cent of the population, compared with three-quarters before the country's annexation in 1940.

Fearing Latvians could be swamped by "Russian-speakers", parliament decided in the run-up to independence to restrict citizenship to pre-1940 citizens and their descendants. This arrangement effectively disenfranchised 700,000 people who had the vote when Latvia was part of the Soviet Union.

The legislation approved this week will enable spouses of citizens, plus more than 200,000 Russian-speakers born in Latvia, to apply for citizenship by 2000. But Mr Hans-Peter Furrer, the Council of Europe's director for political affairs, said the quotas in the new law would mean only about 2,000 people born outside Latvia (out of a total of 300,000 in this category) would qualify for citizenship each year after 2000.

Latvia can argue that it faces a unique dilemma – few countries' demography have been so radically altered in a relatively short period. But while sympathetic to its circumstances, Mr Furrer and the CSCE's Mr Hamilton believe Latvia could have protected its national identity and security without quotas – via, for instance, a requirement that citizens can speak Latvian.

Mr Nils Muiznieks, a US-born academic, explained the reluctance to grant citizenship as a mixture of a desire by extreme nationalists to encourage Russian speakers to leave, and fears among more moderate politicians that giving them the vote could "slow" Latvia's market reforms and create a "fifth column" of potentially disloyal citizens. Many Russian speakers work in Soviet-era factories now likely to close and are regarded by ethnic Latvians as inclining to the east rather than to the west.

The irony is that many Russians, who constituted the local elite in the Soviet era, have become akin to the Jews of the Tsarist empire. Excluded from government posts, they have thrived on business, which they now dominate. Local Russian-language radio in the capital Riga plays locally-produced pop songs with lyrics about the delights of going into "biznez". Mr Boris Tsilevich, a Jewish writer who has taken up the cause of non-citizens, said a large segment of the population is being unnecessarily alienated. "If Russian-speakers turn out to be the 'fifth column' Latvians talk about, it will have been built by Latvian hands."

Perhaps more worrying is the reversal of progress in repairing relations with Russia which could ensue from parliament's decision this week. Last month tha two countries signed an agreement on the withdrawal of the remaining Russian troops by August 31. In return, Latvia agreed to give residence permits to retired Russian officers who decide to stay. Russia made clear its displeasure at the reappearance of quotas in the draft citizenship law earlier this month when it postponed indefinitely a planned visit to Latvia by Mr Victor Chernomyrdin, Russian prime minister. In anticipation of the visit, a trading agreement between Russia and Latvia, halving import and export duties on trade between the two countries, came into force at the beginning of this month.

Latvia's eagerness to recover markets in the east is being spurred by fears that, in spite of its pro-western outlook, ovarpowering competition from more developed capitalist economies could see its national interests subjugated to those of foreign investors. The danger Latvia faces is of upsetting both east and west. On the one hand, the citizenship law may fuel the demands of Russian nationalists in Russia, thus creating greater regional instability. On the other hand, Latvia has harmed its chances of winning acceptance by the western organisations that could protect its independence – and bring economic benefits – whatever happens in Russia.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Labels of candidates confusing

From Dr Keith Cameron.

Sir, On May 12, immediately after the close of nominations, the Devon branch of the European Movement held a public meeting at which six of the eight candidates for the Devon and East Plymouth Euro-constituency were given equal opportunity to speak.

One candidate, named to us over the telephone from the returning office shortly after 4 pm as the Direct Democracy Candidate, arrived at our meeting some three hours later as tha Literal Democrat. As a result of concerns raised after the meeting we sent a fax on May 13 to the returning officer about the clear scope for confusion between the labels of two candidates, already both described in Express and Echo of May 13 as Liberal Democrat. We pointed out that this could have "a not inconceivable pernicious effect on the representation of this area in the European Parliament". Our request for clarification of the descriptions was not acted upon.

The election result fully justifies our concerns; the Literal Democrat, unknown and with no campaigning literature, obtained some 10,000 votes by deceiving large numbers of understandably very upset electors. The Liberal Democrat was a mere 700 votes behind the Conservative. It should be noted that the misleadingly-described candidate was in a higher position on the ballot than the Liberal Democrat.

In the interests of fair and proper representation my committee considers it necessary for a new election to be held in this constituency.

Keith Cameron,
chairman, Devon Branch,
European Movement
Exeter

Lottery and fair competition

From Mr Paul Rowe.

Sir, You reported in your story, "EU seeks views on Cadbury link with lottery" (June 15), on the European Commission's examination of the Camelot joint venture agreements. The Commission wishes to ensure that the agreements in no way contravene EU rules on free and fair competition. It seems likely that Camelot will have taken great care to formulate its agreements in such a way as to minimise the risk of their being overturned by the EU.

I wonder, however, whether as much consideration has been given to potentially serious competition issues by those who will be distributing the proceeds of the National Lottery. Such issues could arise if the distributing bodies grant funds to companies or other organisations which compete in genuine markets. The lottery legislation may have excluded private individuals and companies from receiving grants from the National Heritage Memorial Fund but I am not aware that any such exclusion applies, for example, to Arts Council or Sports Council funds. Competition among theatres and among sports venues, to name just two examples, could thus be affected.

Companies which bid for grants and propose to co-finance the projects concerned will surely be seeking some competitive advantage as a result. An effective subsidy for a capital project provided to just one player in a market but not other (potential) competitors, might constitute a significant barrier to the competitors' entry or growth. Grants could directly or indirectly support changes in pricing, investment or other competitive behaviour.

I believe that such effects could well be thought of by some non-recipients of grants as distortions of competition in their markets. The chances of this are increased by the National Lottery's high profile and the substantial funds likely to be distributed. Complaints to competition authorities seem distinctly possible.

My experience is that they consider the disbursement of subsidies carefully. Some of the distributing bodies may need to think equally carefully about developing appropriate guidelines to deal with these issues if they are to avoid the authorities' investigations.

Paul Rowe,
Coopers & Lybrand,
1 Embankment Place,
London WC2N 6NN

Standard not necessarily to do with product quality

From Mr Alan W Bateman.

Sir, As a former business director for commodity chemicals in one of the world's largest chemical companies, the attacks on BS 5750/ISO 9000 provide me with a belated sense of "I told you so" ("Quality under fire", June 21).

I regarded the so-called standards as one of the biggest con games ever perpetrated on the chemical industry, since they did not necessarily have anything to do with the quality of the final product or its fitness for use. If the BNS/ISO certification defines a process which is less than optimal, product quality can be affected.

For chemical products of the physical and chemical specifications agreed between the customer and the producar should be the prime criterion. The manner by which the producer makes the chemical or acquires it in the event that his plant cannot produce for any reason should be irrelevant to the customar. The guarantee to the customer must be that the product supplied is "on spec".

The only winners in the BS/ISO game have been those that carried out the certification process which is unbelievably time-consuming and expensive.

An American friend of mine (also in the chemical business) assured me that the initials "BS" had a meaning other than "British Standard" when the number 5750 was involved.

Alan W Bateman,
chemical industry consultant,
Oberhustrasse 7,
CH-8134 Adliswil,
Switzerland

No nannying

From Mr Edward de Bono.

Sir, Many of your readers expect to find valuable and useful information in your pages. Some of them are not too happy to be patronised by an interviewer (Lucy Kellaway) who plonks her magnificent ego between them and a subject they might like to learn more about ("Put on your thinking caps", June 17).

Since "parallel thinking" has now been taken up by many corporations which find it more constructive than traditional argument the personal opinion of your interviewer is probably of less value to your readers than an opportunity to find out about the method. Your readers can make up their own minds without being nannied as to what to think.

Edward de Bono,
L2 Albany,
Piccadilly,
London W1V 9RR

Fears about biotechnology are not based on ignorance

From Dr Alan Wrelton.

Sir, I feel I must take issue with David Richardson's assertion (Farmer's Viewpoint, June 21) that fears about the adequacy of biotechnology safeguards are "probably based on ignorance". While I would not dispute that genetically modified organisms offer great potential, it is important to appreciate that, once released into the environment, such organisms will be outside of our immediate control and, potentially, will be subject to evolutionary and adaptive processes. One does not have to assume a worst-case scenario, involving the transfer of genetic material between species, to foresee problems. For example, it is obvious to anyone that oilseed rape is colonising set-aside land and marginal habitats, such as motorway verges.

A genetically modified, herbicide-resistant strain of this crop could prove difficult to eradicate, presenting an insidious competitive threat to the native flora and hence the fauna. History is littered with the good intentions of scientists who failed to consider fully the implications of their actions. I do not regard myself as an ignorant Luddite because I have no desire to see the mistakes of the past repeated – I have a PhD in biology.

Alan Wrelton,
Forest Gate, London E7

FINANCIAL TIMES
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Thursday June 23 1994

Dumping of the dollar

Dollar weakness is an old story. Until 1971, the once all-conquering greenback was worth 360 yen. Until 1969, it was worth four D-Marks. How has the mighty fallen! The questions to be asked are why this latest bout of weakness has occurred, whether it is possible to do something effective about it and, finally, whether action should even be attempted.

The problem in explaining the dollar's weakness is not that there are two few explanations, but that there are too many. While movements in relative interest rates in 1994 should have been favourable to the dollar, fingers can still be pointed at external balances, at fears of inflation, at the US fiscal deficit, at the Federal Reserve's somewhat modest monetary tightening since February and at the current caution of investors. It is tempting to draw the sage conclusion that the dollar has been weak because too few want to buy it.

Can one do better than that? Perhaps. If the dollar is to remain stable, the rest of the world must be a net buyer of claims on the US, at existing exchange rates, of some $140bn in 1994, says the IMF in its latest World Economic Outlook. Similarly, Japan must be a net buyer of claims on the rest of the world, to the tune of $133bn this year. Unless the US offers relatively attractive returns on assets (including on the dollar) and Japan relatively unattractive ones, these capital flows will occur only after exchange rates reach self-evidently under- or overvalued positions.

Convinced investors

Until then, current 'account flows are likely to become overwhelmingly important. They are still more likely to determine the fate of the dollar once the US authorities have convinced investors that they do, foolishly, hope to eliminate the bulk of the Japanese current account surplus. The US current account deficit must then also fall, which suggests the dollar's real exchange rate will have to decline.

Is there anything the authorities can do about that decline? The answer is yes. The central bank in charge of the strengthening currency can always stabilise the exchange rate, by purchasing the weakening one, without limit. This was pretty well what the Japanese did, following the Louvre Accord in February 1987, not an experience they wish to repeat. The problem is that they can stabilise the dollar only by abandoning domestic monetary control. As Professor Ronald McKinnon pointed out in the FT on Tuesday, the two countries must, in effect, form a joint monetary policy.

Frighten speculators

The effectiveness of all other measures is uncertain, limited intervention particularly so. If central banks hit tha markets unawares, they can frighten speculators for a while. They can make announcements, as secretary of the Treasury Bentsen did yesterday, about how strong the US economy is. Such talk is cheap and will not work for long. That leaves changes in monetary policy itself. But the effects even of that are uncertain. They depend on what happens to prospective returns on longer-term assets. If higher short-term interest rates are thought to prove that a central bank is hysterical about inflation, they may harm the cause of the currency as much as they help.

The final question is whether the authorities should, in fact, try to something about the dollar's decline. A partial answer to this question is that the dollar's decline is probably not particularly harmful. But the policy changes suggested by the foreign exchange markets are, in any case, in the right direction. Developments in the US economy and bond markets would justify somewhat higher short-term rates of interest and a tighter fiscal position, the latter underlined by Mr Alan Greenspan yesterday. Despite faint signs of recovery, there also is a case for a more expansionary monetary policy in Japan, something that unsterlilised foreign exchange intervention would ensure.

Why is the dollar weak? We are not certain. Can something be done about it? Yes, but nothing decisive will be. Should something be tried? Yes, because the required changes in policy would push the two main players in sensible directions. Does dollar weakness matter that much? Probably not. However unhappily, the world economy has survived 25 years of it. It can, no doubt, survive a few more.

South Africa's balancing act

South Africa's government of national unity has passed its first test. Yesterday's budget is a brave attempt to reconcile two critical constituencies. The concerns of the business community, looking for evideoce of fiscal discipline, were met with the pledge to cut the bndget deficit from 6.9 per cent to 6.6 per cent of GDP. It will be harder to satisfy a domestic constituency anticipating a liberation dividend. The provision of $685m for the first year of the country's development plan may seem modest at first sight, but it will be hard to spend this amount efficiently in the time available.

This cautious approach suggests that the new ANC-led government is determined not to repeat the mistakes that have proved so costly elsewhere in Africa. But the toughest tests are yet to come: controlling spending while keeping promises to provide a better life for the country's black majority. The budget will come under pressure from several sources including the costs of an expanding civil service, of a multi-tiered system of local, provincial and central government, and of integrating the armed forces. Winding up the old apartheid structures and replacing them with a new system will almost certainly prove more costly than anticipated, even if in the long run it will prove more efficient.

Apartheid's legacy

Redressing the legacy of apartheid involves undoing one of the twentieth century's most radical experiments in social engineering, involving the forced removal from so-called "white areas" of over 3m people. Making restitution to the dispossessed, making available state-owned land to ease pressure in former "black areas", and redirecting financial and other assistance from commercial farmers to peasant farmers without disrupting agriculture will be an awesome task for a government most of whose members have no previous administrative experience. Scarcely less demanding is the target of meeting a housing backlog of over 1.5m units while keeping up with annual extra demand of some 200,000 homes.

The new government must also resolve unfinished constitutional business: determining the relationship between the central government and the nine provincial governments. It is becoming increasingly clear that there will be a tussle for power between the provincial premiers and the executive, involving some of the most critical issues such as the allocation of state resources for housing, health and education.

Working relationship

Fortunately, the four-year transition which culminated in President Nelson Mandela's inauguration last month has helped forge a working relationship between the ANC, Deputy President de Klerk's National Party, and the business community. It is significant that both the deputy to finance minister Mr Derek Keys, Mr Alec Erwin, and Mr Jay Naidoo, the minister responsible for the social upliftmeot programma, are preaching the virtues of fiscal discipline as enthusiastically as Mr Keys himself. This has allowed much of the important groundwork for development to take place. The foreign debt burden, dating back to the freeze on further lending imposed by commercial banks in 1985, has been eased. Similarly, the transitional team has negotiated an International Monetary Fund facility and made trade liberalisation proposals to the General Agreement on Tariffs and Trade.

Now what Mr Keys called the "golden triangle of government, business and the unions" has to deliver jobs and improved living standards. As he acknowledged, success in a challenging international environment requires liberalisation of South Africa's exchange controls, a significant obstacle to investor confidence, as soon as conditions are right. But first South Africa needs to build up its foreign reserves, which currently cover barely six weeks of imports. Above all, restored access to international financial markets should not be seen as a way of funding a larger budget deficit.

If South Africa can realise the vision set out by Mr Keys in yesterday's budget – an open society, trading freely with other nations, investing liberally to increase productive capacity, and creating more jobs and an attractive domestic market – it will have broken the African mould.

ECONOMIC VIEWPOINT

Steady as she goes but watch bonds

By Samuel Brittan

Leaving aside politics and the bond market, the UK recovery is doing better than might have been expected. Output is rising at trend rates or slightly above: that is sufficiently fast to make inroads into unemployment and unused capacity, but not so fast as to stoke up inflation. Indeed, the April increase in earnings growth has, for the moment at least, reversed itself. The official index of underlying retail price inflation is 2.5 per cent, lower than predicted in any of the Bank of England Inflation Reports. The Bank's own index, stripped of indirect tax increases, is even lower, at around 2 per cent or less.

Moreover inflation worriers should be reassured by recent evidence that the pace of home demand is moderating. Retail spending, although well up on a year ago, is increasing less quickly. Monetary conditions have tightened themselves owing to tha rise in bond yields; and an increase in the cost of fixed interest mortgages has taken the edge off the housing market. Thus, as the world economy recovers, there should be room for exports to take over some of the momentum from home spending.

What, then, are the financial markets worrying about? The political weakness of the British government is not a good explanation. There have been plenty of bull markets under Labour governments and bear markets under Conservative ones. Labour laadars are, if anything, hypersensitive to international and financial markat sentiments. Have financial analysts already forgotten the prawn cocktail offensive in the City before the last election to persuade the City of Labour's financial responsibility? The real dangers of a Labour government are from the harm it might inflict on its natural supporters through devices like minimum wages.

The chancellor is looking at ideas for selective top-up to pay of those accepting low-wage jobs

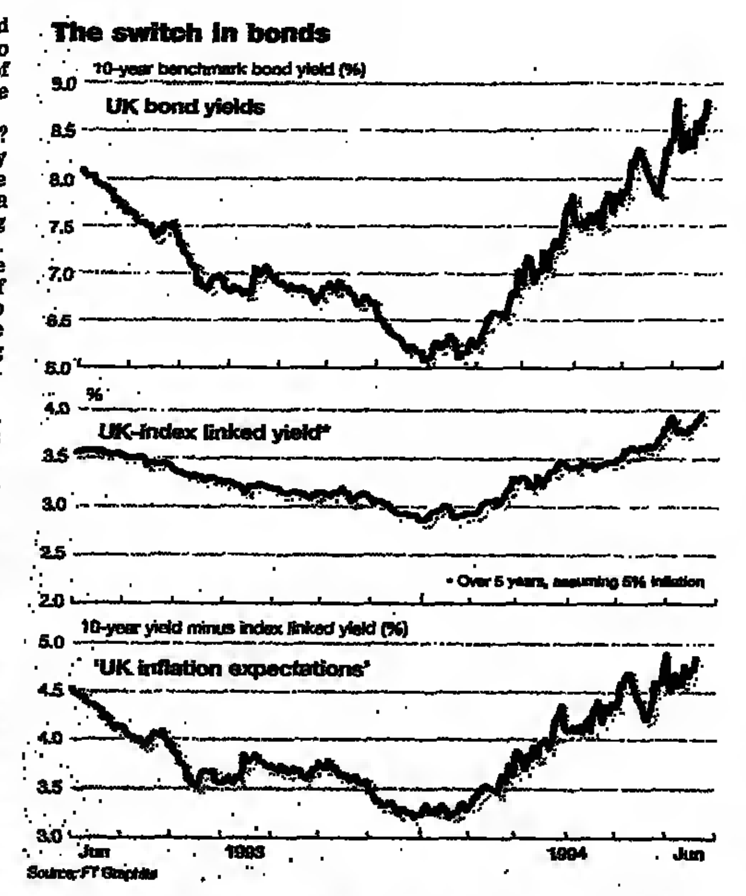
Another false worry is that the present government will refuse to tighten monetary policy when the Bank of England advises it to do so. The chancellor, Kenneth Clarke, is 'philosophically' in favour of central bank independence, but does not think the time right for a full-frontal move. Meanwhile, the publication of the minutes of his monthly meetings with the governor has put the latter in the driving seat. If the Bank of England is really intent on raising interest rates – which it is not at present – the most that the chancellor is able to do, as he well recognises, is to interpose a minor delay. Moreover, a Blair-Brown Labour government would not reverse the moves made so far to give the Bank more scope. Indeed Labour's mood at the moment is to settle for a transitional set of arrangements quite similar to the government's own.

What then is worrying markets? The source of the trouble is clearly the US. Even here, there may not be anything all that fundamental. Wa may simply have seen the bursting of a moderate speculative bubble. The Dow Jones Industrial Average is still much higher than in most of 1992 and 1993. The same applies to the FT-SE 100 Index in the UK. The German Dax index has seen nothing more than a hesitation in a two-year upward trend.

Similar remarks apply to bonds. In the US and the UK, bond yields have more than reversed their 1993 fall, but are still lower than two years ago. The rise in German yields has been less, but sufficient to put a brake on the succession of short-term interest rate cuts. One way of potting what has happened is that, a year ago, inflation was widely held to be dead and deflation declared to be the new problem. Today's perception is of a normal upward phase in the business cycle, bringing with it the familiar need for vigilance against any inflationary take-off.

The most striking feature of world financial markets is the weakness of the dollar against the yen. But this is not yet a generalised dollar weakness. The US currency is a good deal higher, for instance, against the D-Mark than it was in the closing months of the Bush administration, whan it touched DM1.39. Sterling has weakened less than the dollar and it is still well above the low levels it reached after the 1992 ERM exit.

But having said all this, the weakness of bond prices will indeed become a severe warning signal if it goes much further. The rise of nearly 3 percentage points in UK bond yields since last winter can be decomposed into two elements.



There has been a rise of over 1 point in the return on index-linked securities, which now yield around 4 per cent. This is an approximation to the real rate of interest not only in the UK, but in the world – for real rates tend to equality in a worldwide capital market.

This real component of the rise in rates could be a sign that the world capital shortage, which was prematurely diagnosed after the fall of the Berlin wall, has at last really arrived. In the words of David Hale of Kemper Financial Services, "the potential exists for the old industrial countries to experience a cyclical economic recovery coincident with rapid economic growth in countries making the transition to market-based economic systems. This is likely to put upward pressure on real interest rates, because it will generate investment activity and credit demand from countries which have not been players since the first world war." In addition, there will be the need to finance budget deficits in most western countries.

On top of these structural forces, there is an apparent rise of more than 1 percentage point in the UK 'inflation premium', derived by subtracting the yield on indexed gilts from that on normal gilts.

The one worldwide force suggesting the possible return of inflation has been a 25 per cent jump this year in commodity prices. In fact, a sharp rise here in the course of a world recovery is quite normal. An occasional bump of this kind is an illustration of the point by former UK chancellor Lord Lawson that we cannot expect either output or prices to move in a straight line. However, a continued commodity price increase of recent dimensions could not be so readily explained away and would be a sign of worldwide pressures on capacity.

I can still hear critics saying that the true constraint on UK recovery is not inflation but the balance of payments. Let us cut out the scholastic argument about how much this matters and conduct the argument in terms of capacity instead. For what could make it necessary to slow down the recovery well before a reasonable level of employment had been reached, would be a shortage of capacity. Here the former Nedo economists, whose book *Britain's Economic Performance* was reviewed by Edward Balls in the FT last Thursday, have a point. With the cost indices showing Britaio being highly competitive against the rest of the world, further devaluation would just be inflationary.

Despite the peculiar left-right coalition which regards such a prospect with indifference, if not joy, continuing depreciatioo of sterling is not an optioo for governmeots even half serious about a 1 to 4 per ceot inflatioo rate. Admittedly, in the Treasury model sterling is not a good predictor of inflstioo for up to two years ahead. But this is just a question of forecasting techniques.

There can be little doubt that, if sterling continued to drop year after year against the world's main currencies, the UK inflation rate would be correspondingly higher. Britain has already had, when it left the ERM, the one-off devaluation which might be benign.

Where, bowever, the ex-Nedo economists are obstinately wrong is in failing to see that the capacity shortage is st bottom a labour market problem. For in the end businesses will install the amount of capacity that they regard as profitable. In the long run extra workers are taken on, and the capacity to employ them installed, if the gains from so doing exceed the extra costs involved. If labour markets were more flexible, it would pay to add capacity and employ more people. (Readers who disagree should write "to the editor", not to me.)

It is at least a good sign that the chancellor is using the present respite from monetary controversy to investigate ideas for improving the workings of the labour markets in a humane way, so that it becomes possible to create low-paid jobs for the less skilled, while topping up their pay by other means.

Europe's pensions quandary

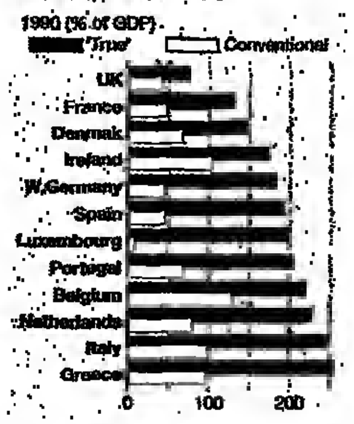
PERSONAL VIEW

The question of how pensions should be financed and who should pay them remains at the top of the policy agenda across the world. In the UK, today's white paper in response to the Goode report will propose new solvency standards and regulatory reforms, while in Italy the government is faced with a budget "hole" of perhaps one-fifth of the planned 1994 deficit as a result of a court decision this month on state pensions. There is a widespread feeling that something has to change hut – as demonstrated by last week's abandonment of the troubled European Union pensions directive – no agreement as to what.

But the problem cannot be swept under the carpet. The adverse demographic trends at the heart of the pensions quandary are a source of strain for public sector hudgets already swollen by unemployment due to an explosion of low-cost competition. The extent of the strain cannot be gauged from published public sector statistics, which are purely backward-looking, with no inclusion of unfunded pension liabilities.

Researchers at ABP, the Dutch civil service pension fund, have quantified the present value of unfunded pension liabilities in Europe. If the present value of tax receipts from public and privata pensions is dednicted from this sum, and the conventionally measured debt hurden is added, the result gives a measure of "true" debt (see chart). While this does not represent a complete set of adjustments to gross public debt data – which would include assets to be sold off, as well as future liabilities – there is merit in singling out pensions. First, pensions are among the most important categories of public expenditure. Second, to the extent that they are unfunded, they are most vulnerable to demographic trends.

The "trua" debt/gross domestic product ratios are more than double conventional ratios almost throughout the EU. The UK – with both the lowest public pension in the EU and one of the best developed private-funded sectors – stands ont as having the smallest unfunded liabilities in relation to GDP, and that ratio will have fallen after the 1993 announcement of a phased rise in the pension age for women.



Financing problems are not confined to pensions promised by the public sector. In Germany, private schemes are usually of the defined benefit type and more than 60 per cent of private pension obligations are held within company balance sheets. But under the pressure of redundancies, some companies have begun to create separate pension funds, partly because the employee contributions which are proving increasingly necessary must by law be made into a hypothecated fund.

Some means of encouraging savings needs to be found. An alternative solution to underfunding is to reduce the real value of pensions, but there are clear political limits to this; in the Netherlands the Pensioners' party won six seats in May's elections. In the UK the state earnings related pension scheme became less generous in 1988, and since 1981 the basic pension has been linked to prices rather than wages. Greater availability of appropriately supervised privete sector pension funds, free to invest as their managers see fit, is the only realistic way forward.

Make no mistake, governments will progressively renege on their pension payments. The only way to head off political consequences is to encourage saving, particularly via private pensions. In continental Europe, where cross-border sales and investments are commonly constrained, Sir Leon Brittan gave the lead in 1991 with the draft Pensions Directive. But although all European leaders support free capital movements in principle, in practice the ERM and the Maxwell crises, coupled with lingering resentment of the UK's tactics during the Maastricht negotiations, destroyed the political support for the directive, and it has been abandoned.

Europe's pensions quandary is not a suitable case for "muddling through". A directive which genuinely liberates capital would radically improve the allocation of savings, raising growth and generating jobs. In stark contrast to last year's Commission white paper, free cross-border pensions in Europe could help finance investment without adding to high government debts – both revealed and hidden.

Jonathan Hoffman

The author is o director of economics at CS First Boston, London

OBSERVER

Warsaw's honeypot

■ This weekend Warsaw plays host to an event that would have warmed the cockles of the heart of Jacques Attali, former president of the European Bank for Reconstruction and Development.

International aristocrats, Citibank, Burger King and, yes, the EBRD are helping with the organisation of a series of events – including a ball and candle-lit dinners – to raise funds for a new children's cancer hospital, which will receive almost half the proceeds.

The EBRD in London says it's providing "no financial support whatsoever", though it thought it may have given permission for its name to be used.

Warsaw's Royal Castle, rebuilt in the 1970s by Edward Gierek, then Communist party leader, will, for the first time since it was destroyed during the second world war, be the scene of a "Red and White" dance – "carriages at two" – on Saturday. Sunday will be devoted to visiting stately homes.

Sereena Balfour – her husband Neil has been acting as an EBRD consultant in Warsaw since 1992 – is the gala's moving spirit.

She has assembled a glittering crowd of the great and the rich, including Rocco Forte, whose Bristol Hotel will be housing some of the prominent guests.

Balfour says that besides charity, the aim of the exercise is to erode Poland's foreign image as a desperately dull and dreary place.

In a personal capacity, Guy de Selliers, a deputy vice-president of the EBRD, is one of 200 guests, including Wieslaw Kaczmarek, Poland's privatisation minister, who has been invited to sttend at a reduced rate.

Other guests will be paying $1,310, plus $290 for their room in the Bristol; not exorbitant, but still rather beyond the average monthly Polish salary, equivalent to $200.

Yankees out

■ It's all change at the American University of Beirut where Richard Debs, the ex-New York Fed man and more recently Morgan Stanley hot-shot, has taken over as chairman of the board of trustees.

The only problem is that Debs, plus his new vice-chairman, Occidental's Ray Irani and Tom Morris, former chief executive of New York's Presbyterian Hospital, are not allowed to walk AUB's tree-lined squares.

Three years after Lebanon's civil war, which hrought bombs, killing and kidnapping to AUB, the state department still bars Americans from travelling to Beirut.

"I suspect we'll be able to go back in a year or so," says Debs, who learnt his Arabic when he was a Fulbright Scholar in Cairo back in 1952.

'I'm a professional slave to my ego'

Until the state department decrees Lebanon safe, therefore, daily running of the oldest US institution in the Middle East remains in the hands of its now non-American staff.

Not tongue-tied

■ Anyone wishing for an instant assessment of the state of the South African economy need look no further than the attire of finance minister Derek Keys.

Yesterday he was sporting what he calls his "good news" tie, a truly appalling confection of broad stripes in yellow, purple, maroon and blue.

This garish combination heralded an upbeat introduction to yesterday's budget: an ecooomic recovery boosted by a higher gold price, solid export earnings, improved access to foreign markets, favourable agricultural conditions, improving local and international business and consumer confidence "with each day that passes".

If on his next public appearance Keys sports an even more spectacular choice of neckwear, brace yourselves: he'll most likely be announcing the abolition of the financial rand.

Right pair

■ The menu in the Columbia Restaurant of the QE2 luxury liner this week offered passengers a chance to taste some traditional Old English dishes: *Spaghetti Bolognese* followed by *Coupe Belle-Hélène*.

No doubt they should be washed down with some of that good old Somerset drink *Dom Perry-gnon*.

Nice one, George

■ Always thought that George Mathewson, the restless chief executive of the Royal Bank of Scotland, was a bit of a rum cove.

On the day 3i celebrated its stock market launch, Mathewson's bank dumped (sorry sold) its entire £115m stake in the venture capital company.

Given that Mathewson spent nine years learning his trade st the old ICFC, the forerunner of 3i, it doesn't sound much like a vote of confidence in his old employer.

"I hope nobody thinks that I am saying 3i is a bad company. It is a very good one," says Mathewsoo who blames less favourable accountancy rules for his change of heart.

Quite so. But it probably would not have happened if the Royal Bank was still run by old fashioned clearing bankers.

Bristol fashion

■ George Mathewson is not the only ex-3i veteran at the Royal Bank who clearing bankers love to hate.

Derek Sach, recruited hy Mathewson to run the bank's intensive care ward after 20 years at 3i, has even dared challenge the usefulness of the floating charge, an ancient banking method whereby banks can get their money back even if no one else can.

Ha told the FT earlier this week that it should be abolished. As one pained clearing banker noted yesterday this would mean that students of Institute of Bankers exams would no longer be able to answer the stock question: "How do you secure a ship mortgage?" with the hoary old answer "with a floating charge and a sinking fund."

FINANCIAL TIMES
Thursday June 23 1994

UK opt-out keeps it exempt from directive

EU states agree law to set up works councils

By David Gardner in Luxembourg

All European Union member states, except the UK, yesterday agreed on a law to set up elected works councils in up to 1,500 large trans-European companies.

The councils are intended to ensure that workers' representatives in companies employing more than 1,000 people – or more than 150 in at least two member states – are consulted and informed on cross-border business decisions that affect them.

A jubilant Mr Padraig Flynn, EU social policy commissioner, acclaimed yesterday's decision as "a historic breakthrough" for workers' rights in the border-free single market. "This flexible legislation is good for business and will improve competitiveness through better industrial relations," Mr Flynn said.

The deal follows 24 years of wrangling.

The UK is exempt from the directive through its opt-out from the Maastricht social chapter, under which yesterday's legislation was passed. However, just under 100 British companies operating on mainland Europe will be affected.

A recent German study suggests that 450 German companies, 250 US corporations operating in Europe, and 220 French companies will be the most affected. Nearly 300 UK companies would have been in the net had it covered British territory.

Attempts to include UK-based employees of British multinationals were rejected by EU labour and social affairs ministers meeting in Luxembourg yesterday.

Mr David Hunt, UK employment secretary, said he was "very pleased that the UK will not be forced to accept trade union-dominated works councils" which "will impose unnecessary costs and bureaucracy on companies".

The directive replaces the original Brussels plan for a uniform structure of compulsory consultation with provision for individual voluntary agreements at company level.

The process is triggered when "at least 100 employees or their representatives in at least two member states" ask for information and consultation procedures.

If talks fail after three years, then a set of minimum standards contained in an annex to the directive will apply. If management refuses talks, the annex will be imposed after six months.

Assuming the measure is rubber-stamped by ministers in October after a second reading by the European parliament, and allowing two years for transposing the directive into national law, the councils should be up and running by the end of 1999.

Unice, the Euro-employers' lobby, said on the eve of the decision that it "violated the very principle of consultation that it seeks to endorse".

British employers also denounced the decision. Mr Peter Morgan, director-general of the Institute of Directors, said works councils would damage European competitiveness.

The European Trade Union Confederation said workers had waited a long time for this decision which gave "a new push to EU social policy". This was the first Euro-law passed under the Maastricht social chapter.

Russia warns on pace of Nato expansion into east Europe

By Bruce Clark, Defence Correspondent, in Brussels

Mr Andrei Kozyrev, the Russian foreign minister, yesterday urged Nato not to risk provoking public opinion in his country by rushing to welcome east European countries as members of the alliance.

The appeal was made during a visit to Brussels for a Nato meeting hailed as a landmark in Russia's links with the west. Representatives of Nato's 16 member states were gathered to honour Russia as the 21st, and most important, member of Partnership for Peace, the military co-operation programme.

The partnership is intended to broaden military co-operation in Europe and the former Soviet republics, setting up programmes for joint peacekeeping exercises and grooming countries for eventual Nato membership.

Mr Kozyrev told Nato that a large section of the Russian public needed convincing that the alliance was not intent on a "triumphant march eastwards".

The Russian minister said a "major psychological adjustment" would be necessary before his fellow citizens could accept the idea of countries like Poland, Hungary and the Czech Republic joining the alliance.

In welcoming the Russian participation, Mr Warren Christopher, US secretary of state, said that "by widening the reach of the great postwar security and economic institutions, we can help ensure that war, poverty and oppression never again engulf this continent".

Mr Kozyrev stepped back from previous demands that Nato be subsumed by the Conference on Security and Co-operation in Europe, a loose club of 53 nations whose current brief is more diplomatic than military, and said time would tell which was the most important institution.

"Let us not make any of them a fetish ... experience will show the correct combination and determine the real value of each of them," Mr Kozyrev said.

As well as signing up to the partnership, Mr Kozyrev and his hosts approved a separate document that will usher in a broader relationship between Russia and Nato, including a dialogue on European security issues.

But allowing Russia to negotiate this side agreement in advance of joining the partnership has dismayed central and east European states, who were told they must adhere to PFP first and then refine their links with Nato.

Nato officials, however, said they were satisfied that the document's final text did not give Moscow any automatic right to sit in on their private discussions. Diplomats said that in four days of haggling, Russia showed goodwill by agreeing to work from a Western draft but it won important concessions.

One was the exclusion of a phrase that would pledge Russia and Nato not to interfere in each other's decision-making process. Another was the inclusion of a reference to Russia's importance as a nuclear power.

Clinton defiant over state of US economy

Continued from Page 1

more stable dollar and from Mr Greenspan's testimony.

German bunds rose almost 2 points, helping the rest of the European bond markets to recover, but volume was thin.

In Frankfurt, the Dax stock market index rose 11.15 points in normal trading hours to 1994.42. After hours, it added another 10 to 2004.93. In Paris, the CAC Index jumped 26.26 points to 1917.04. In London, markets were also given a boost by the publication of the minutes of the May meeting between Mr Kenneth Clarke, chancellor of the exchequer, and Mr Eddie George, governor of the Bank of England.

The minutes indicated no immediate need to increase UK interest rates. The FT-SE 100 Index rose 20.3 points to 2960.4, while the September long gilt future gained nearly two points.

Guinness cashes in on Irish World Cup triumph

By Paul Taylor in London and Tim Coone in Dublin

Ireland's success in the World Cup is creating a windfall for Guinness, the London-based brewer, which has seen stout sales rocket on both sides of the Atlantic.

Some pub landlords in Britain have had to order "emergency supplies" of Guinness after Ireland's football triumph over Italy sent sales soaring up to five times normal levels.

In Britain, where Guinness generally sells around 1m pints a day, pubs and Irish clubs, particularly those in areas such as north-west London and Merseyside, which have large Irish populations, report strong sales. "The Irish have a knack for turning a sports event into a party," said Guinness.

But English, Scottish and Welsh football fans, bereft of their own teams to support in the World Cup, are jumping on the Irish bandwagon and ordering pints of Guinness – promoted on television by Jack Charlton, the Irish manager.

Guinness, which is sponsoring the Irish team, readily admits that much of the evidence for the sales surge in Britain is anecdotal, since it has yet to compile actual sales figures.

Nevertheless, one pub landlord in Peterborough, Cambridgeshire, reported that his customers drank more than 1,000 pints of Guinness on Saturday as they watched Ireland's 1-0 victory over Italy – more than quadruple normal sales.

In the Irish Republic, where 420m pints of stout are downed every year and Guinness is estimated to have 90 per cent of the market, the company says sales have gone up by 15 per cent since the World Cup started.

This was despite a barmen's strike in Dublin last Saturday, timed to coincide with Ireland's opening match against Italy, and which closed half of the pubs in the capital. Happily, the dispute has now been resolved.

In the US, Guinness sales were already growing strongly. Irish bars in New York and in Orlando, Florida, where the team is now staying, are doing brisk business with the estimated 18,000 Irish supporters.

Sales in Orlando during June are running at more than double the 1993 level and at Mulvany's Irish Pub last Saturday, 32 barrels of Guinness were drunk compared with between five and eight on a normal Saturday.

In New York where Ireland's first match was played, the Guinness regional sales representative believes 50,000 pints of Guinness will be sold this month – up between 70 and 80 per cent on the same period last year. "It's like a month-long St Patrick's Day," she said.

Norway braced for Italian backlash, Page 8

THE LEX COLUMN

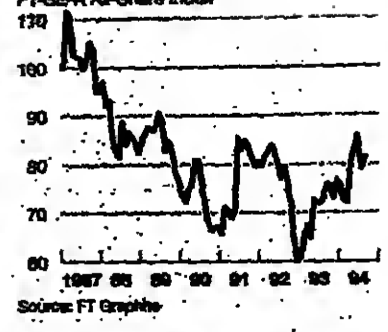
Investors in 3i

Stormy financial markets have forced 3i to trim its sails a touch but not prevented its flotation. The issue has been priced at a 13.5 per cent discount to net asset value, which is somewhat higher than the venture capital group's existing bank shareholders were originally looking for. Barings, 3i's merchant bank, has also thought it wise to choose a price which will mean that institutional shareholders will on average receive less than half the shares they apply for. That should ensure a healthy aftermarket provided equity prices do not take another dive in coming weeks.

But it would be wrong to conclude that the pricing offers investors the prospect of quick profits. Though the bulk of 3i's portfolio is unquoted, it is valued by reference to market price/earnings ratios. Similarly, the drying up of new issues means it will take longer for 3i to realise the value of its assets. The 272p issue price merely reflects these factors. It is not particularly generous.

3i's main attraction is as a long-term investment. The company has outperformed average venture capital and smaller company investment trusts over the past decade. The source of this success is a branch network that enables 3i to invest in a much broader range of small companies than rival investment trusts are able to tap. Though there are costs in maintaining 3i's network, they have been cut in recent years. Because the competition in supplying finance to this sector is not severe, the prospective returns are higher.

FT-SE Index: 2960.4 (+20.2)



Source: FT Graphite

ICI

The stock market's reaction to the appointment of an outsider as ICI's chief executive was muted compared to the celebration which greeted Mr Martin Taylor's arrival at Barclays last summer. But Mr Charles Miller Smith, who is moving to ICI from Unilever and was rumoured to be in the running for the Barclays job, should not feel slighted. The process of cultural change is already well established at ICI following last year's demerger of Zeneca. The main comfort in the appointment is that there is less danger of ICI sliding back into complacency now that profits are starting to improve.

Mr Miller Smith may also be able to add value to ICI's investment decisions, which will be just as important for the company's long-term success. The chemical group's record on this score has been patchy. With its balance sheet restored to health thanks to the demerger, ICI has money to spend. But without the cash flow from the bioscience side, it cannot afford expensive mistakes.

While Mr Miller Smith will not bring specialist knowledge to investment decisions, ICI is not short on chemicals industry experience. The chairman-designate and most other executive directors have risen through the ranks. Neither has specialist knowledge always brought the right result in the past. It may be more important that Mr Miller Smith brings a dispassionate view, unencumbered by the past.

BAT Industries

It is not only pharmaceutical companies that catch colds when the US Food and Drug Administration sneezes. BAT's shares, too, have spluttered after the FDA attacked high-nicotine tobacco. Whatever the rights and wrongs of the latest row, the trend towards tighter regulation is unmistakable. BAT describes the FDA as an "agency with an agenda" aiming "to acquire jurisdiction over tobacco so that it can regulate it out of existence". That makes its $1bn acquisition of American Tobacco appear all the more heroic – or foolhardy.

BAT's shares have underperformed the market by 8 per cent since it moved to increase its exposure to US tobacco, although other unsettling factors have been at work. BAT has been hit by the dollar's weakness and it has only recently become apparent how badly Farmers was knocked by the Californian earthquake. Yet if BAT's tobacco worries are confined to the US, its rating looks decidedly mean. Its tobacco interests are valued on an earnings multiple of around five when insurance is given a market rating. That may only reinforce the logic of hiving off tobacco, even though Philip Morris has just baulked at the idea. After all, cigarette sales in the developing world should more than offset shrinking US demand.

Small companies

A pan-European market for smaller company shares of the type being discussed by Nasdaq, the US market, is an attractive idea. Institutions tend to be interested in the minnows only at the top of the investment cycle, so retail investors are required to underpin liquidity. Yet no single European country has a deep enough pool of retail money to allow the lower echelons of national markets to flourish. Harnessing interest across Europe might provide enough liquidity to replicate the success of Nasdaq in the US.

But in practice it is not clear that European investors have the same enthusiasm for equities as their US peers. And though the technology to run such a market is available, persuading national exchanges to back the venture will be hard. The London Stock Exchange for one is determined to go it alone. Even if a number of existing markets could be convinced in principle, ticklish problems of accounting harmonisation and regulation would have to be overcome. None of this amounts to an argument against trying to establish such a market. But there are powerful reasons to doubt whether it is an idea whose time has come.

Telegraph

A recent study by management consultants McKinsey argued that the only reliable way to win price wars was to avoid them. On that reckoning, the Daily Telegraph can only lose heavily by cutting its cover price. The Telegraph accepts it could lose £40m in annual circulation revenue, although that will be partly offset by increased advertising and lower costs. The more worrying thought is that the Telegraph has ceded control of its destiny to its chief competitor. The Telegraph's move only makes sense if The Times now stops hostilities. Sadly, Mr Rupert Murdoch is not reknowned for such generosity.

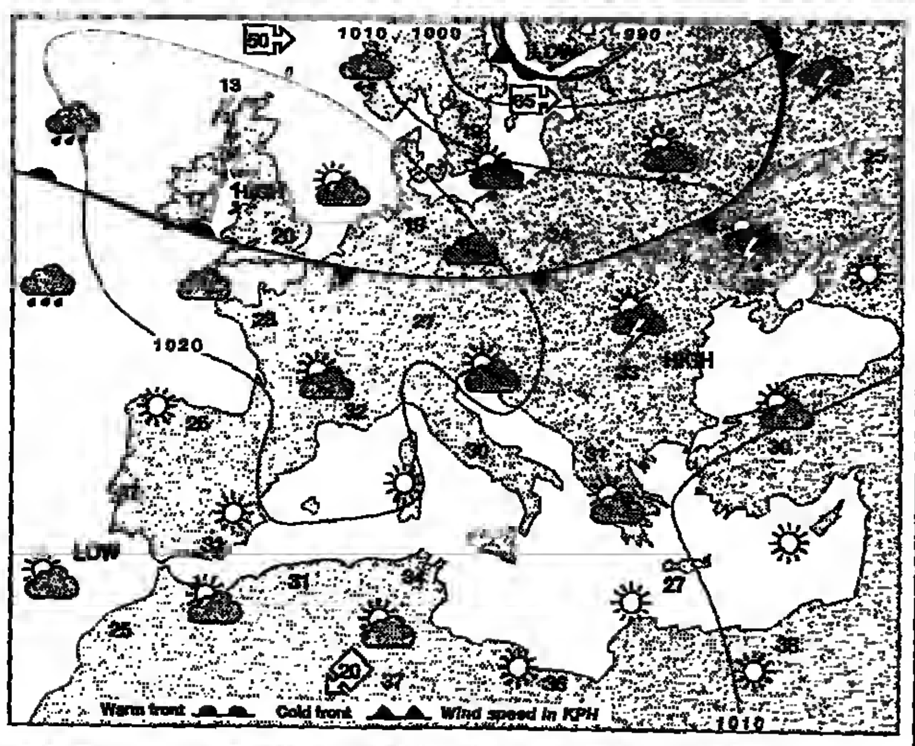
FT WEATHER GUIDE

Europe today

A depression over Finland will produce a lot of rain over northern Scandinavia. Showers and cool breezes will reach the western coast of Sweden and winds will be gale or strong gale force over the Baltic. Meanwhile, high pressure will make western Europe more settled. Northern France, Germany and the Benelux will be dry with sunny spells. Southern Europe and northern Africa will be sunny and warm. The Balkans and the Ukraine will be warm with thunder showers developing this afternoon. Warmer air will move slowly across southern England and Ireland, resulting in increasing cloud and occasional drizzle in Ireland.

Five-day forecast

A vigorous depression over Finland will weaken as it moves into Russia. As a result, more settled conditions will develop over northern Europe. Warm air over Spain will be drawn further into France and later towards the Benelux. However, a depression will develop over France causing thunder showers to form on Saturday. These will reach The Benelux and western Germany on Sunday and it will soon become cooler.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	40
Accra	shower	29
Algiers	fair	31
Amsterdam	fair	18
Athens	sun	31
Atlanta	thund	32
B. Aires	fair	19
B.ham	cloudy	20
Bangkok	rain	33
Barcelona	sun	27

Beijing	fair	33
Belfast	cloudy	17
Belgrade	fair	33
Berlin	cloudy	21
Bermuda	fair	30
Bogota	cloudy	19
Bombay	fair	32
Brussels	cloudy	23
Budapest	fair	32
C.hagen	cloudy	18
Cairo	sun	36
Cape Town	shower	19

Caracas	shower	26
Cardiff	drzzl	19
Casablanca	fair	25
Chicago	fair	30
Cologne	cloudy	24
Dakar	fair	31
Dallas	cloudy	33
Delhi	fair	42
Dubai	sun	44
Dublin	drzzl	17
Dubrovnik	fair	30
Edinburgh	fair	19

Faro	fair	30
Frankfurt	fair	29
Geneva	fair	30
Gibraltar	fair	24
Glasgow	cloudy	18
Hamburg	fair	19
Helsinki	rain	13
Hong Kong	cloudy	29
Honolulu	fair	28
Istanbul	fair	28
Jakarta	cloudy	31
Jersey	cloudy	19
Karachi	fair	34
Kuwait	sun	44
L. Angeles	sun	22
Las Palmas	fair	26
Lima	cloudy	19
Lisbon	sun	35
London	fair	22
Lux.bourg	cloudy	25
Lyon	fair	30
Madeira	fair	26

Madrid	sun	37
Majorca	sun	30
Malta	sun	30
Manchester	cloudy	18
Manila	cloudy	32
Melbourne	rain	13
Mexico City	cloudy	22
Miami	thund	33
Milan	fair	33
Montreal	fair	26
Moscow	shower	20
Munich	fair	28
Nairobi	fair	23
Naples	fair	30
Nassau	shower	30
New York	sun	31
Nice	fair	27
Nicosia	sun	35
Oslo	cloudy	20
Paris	cloudy	26
Perth	cloudy	21
Prague	cloudy	27

Rangoon	cloudy	27
Reykjavik	cloudy	10
Rio	fair	25
Rome	fair	30
S. Frsco	sun	21
Seoul	fair	26
Singapore	cloudy	31
Stockholm	cloudy	19
Strasbourg	cloudy	28
Sydney	cloudy	20
Tangier	fair	32
Tel Aviv	sun	34
Tokyo	fair	26
Toronto	sun	24
Vancouver	shower	21
Venice	fair	31
Vienna	fair	30
Warsaw	fair	25
Washington	sun	32
Wellington	cloudy	10
Winnipeg	fair	30
Zurich	fair	28

FINANCIAL TIMES
COMPANIES & MARKETS

Thursday June 23 1994

IN BRIEF

All change on top at Tetra Laval

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Louis Vuitton is rationing customers to one or two purchases at a time because of a surge in demand for its products. Page 20

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Royal Bank of Scotland has sold its stake in 3i, which is priced at 272p per share for its flotation. Page 20; Observer, Page 17; Lex, Page 18; Details, Page 26

Deal boosts Japan's multimedia hopes
A co-operation agreement between Japan's NTT and the US's Microsoft to develop an interactive multimedia system could further Japan's ambitions in this area. Page 21

Bridge battle enters new phase
Parker & Parsley, suitor for Bridge Oil, has begun legal proceedings against the rival bidder Gantry alleging hreaches of the US Securities Exchange Act. Page 22

BTP's 48% rise beats expectations
BTP beat City expectations with a 48 per cent jump in annual pre-tax profits. Page 24

First Leisure warns on consumer spending
Profits ahead 15 per cent did not prevent First Leisure from warning there has been no substantial increase inconsumer spending. Page 24

Carpetright moves ahead
Twenty-nine new stores helped Carpetright boost profits by 79 per cent. Page 26

Restructuring charges hit Wagon
Wagon Industrial posted better-than-expected profits, though still down on the previous year because of restructuring charges. Page 26

Lupins reduce the trade deficit

A new strain of lupin which can be used for animal feed could soon take over British farmland and reduce the trade deficit. Page 28

Investors shy away from China
Investors have been fighting shy of China, with the Chinese equity market falling 37 per cent in dollar terms this year. Back Page

Correction
The picture on this page yesterday was of Mr John Simons, finance director of Hazlewood Foods. The caption wrongly identified him as Mr Peter Barr, chairman.

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)

Rises			
BASF	303.2	+	8.7
Deutsche Bab	225	+	6.5
GEHE	548	+	10
Linde	875	+	19
MAN Pref	308	+	8.5
Falls			
VEW	370.5	−	5.5

NEW YORK ($)

Rises			
Caterpiller	102½	+	⅝
Compaq	32⅞	+	1
Micron Tech	32⅝	+	1
Quaker Oats	73⅝	+	½
Silcon Grap	21⅝	+	2⅛
Falls			
Lotus Dev	36⅛	−	½

New York prices at 12.30pm.

PARIS (FFr)

Rises			
Bancaire Com	530	+	30
CGIP	1137	+	57
Elf Aquit	396.9	+	12.8
Fonc Lyon	840	+	20
Skis Rossig	1040	+	95
Falls			
Radiotechn	490	−	18

TOKYO (Yen)

Rises			
Banyu Pharm	924	+	23
Falls			
Fuji Spin	518	−	27
Marcian	733	−	31
Murata Man	4490	−	240
Nip Soda	450	−	19
Nissan Del	573	−	23

LONDON (Pence)

Rises			
Amber Industrial	755	+	50
BTP	308½	+	8½
Blue Circle	285	+	16
Bowater	454	+	19
Caradon	293	+	13
Cassidy Bros	92	+	5
GRE	177	+	7
ICI	738	+	17½
Laing (J) A	267	+	13
RMC	828	+	19
Reckitt	208½	+	9
Shell Trans	695	+	12½
Sleepy Kids	77	+	4
Taylor Woodrow	133	+	9
Total Systems	25	+	3
Falls			
Eurocamp	271	−	8
First Leisure	289	−	19
Glaxo	538	−	14½
Graham Tele	54	−	4
Lovell (YJ)	83	−	3
Metal Bulletin	400	−	20

Metallgesellschaft to sell HQ

By David Waller in Frankfurt

Metallgesellschaft, the heavily indebted German metals, mining and industrial group, has entered negotiations to sell its headquarters site in the centre of Frankfurt.

The move follows the sala last week of an 80 per cent stake in its Buderus engineering subsidiary, which raised DM1.2bn.

The Frankfurt site could have a market valua of DM750m ($460m), Metallgesellschaft said, but cantioned that not all the proceeds would flow to its coffers as the land is jointly owned with a company controlled by Dresdner Bank.

The group said it had entered into negotiations to sell the land as it made no business sense to have administrative offices, a car park and research laboratories on so valuable a site.

The planned sale of the land and the disposal of the Buderus stake come against the background of continuing business problems at MG Corp, the group's New York-based trading subsidiary, whose speculative trading in oil derivatives brought Metallgesellschaft to the brink of collapse in January.

MG Corp was still a "machine for losing money", Metallgesellschaft's chairman Mr Kajo Neukirchen warned yesterday in an interview in the employees' magazine. Problems in the US represented the biggest challenge to Metallgesellschaft's recovery plans, he said.

MG Corp has become entangled in the affairs of Castle Corporation, a US oil refinery with which MG Corp has entered into a number of what Mr Neukirchen called "inexplicable" contracts.

The contracts oblige MG Corp to supply Castle with crude oil and help it finance the oil purchases. Then MG Corp is obliged to buy back the oil from Castle – 40 per cent owned by MG Corp itself – at above the market price until the year 2000. Mr Neukirchen said he was trying to extricate MG Corp from the contracts but he could not predict when a solution might be found.

These contracts have required Metallgesellschaft to set up fresh provisions to cover risks arising from the north American operations. The scale of the provisions has not been disclosed hut they are thought to be at least DM1bn.

Mr Neukirchen insisted that the sales of land and assets were not a direct result of the north American problems, although earlier in the year the sale of the Buderus holding had been ruled out.

Analysts had suggested that the change of heart implied that the Buderus disposal was a "forced sale".

Metallgesellschaft had total dehts of more than DM9bn at the end of March.

Nasdaq holds talks on forming European exchange

By Norma Cohen, Investments Correspondent

Nasdaq, the US screen-based exchange which is the world's second largest stock market by turnover, is holding talks with potential partners about creating a pan-European exchange for small and medium-sized companies.

Mr Joseph Hardiman, Nasdaq president, said the new exchange could be formed quite quickly – perhaps in the next 12 to 15 months. Nasdaq would seek to be a minority shareholder, he said.

Potential participants include the European Venture Capital Association, the UK-based City Group for Smaller Companies and several European hourses.

Before Nasdaq would commit itself, Mr Hardiman said, "we have to make sure there are no overwhelming regulatory hurdles and we have to make sure there is a critical mass of buyers of these securities".

Mr Jean-François Theodore, president of the Société des Bourses Françaises, which runs the French market, has confirmed that be is one of the parties to the discussions.

Mr Theodore intends to form a French-based working group of investors, regulators and intermediaries to study the issue and hopes that a report can be prepared hy October.

Should the bourse participate in a pan-European exchange, it too would hope to hold a minority stake.

A bourse official said there was a particular need to provide an exchange for companies for which the Paris unlisted securities market was inadequate but for which full listing was not feasible.

Mr Hardiman said: "We are hoping to jointly develop a true international securities market." He added that the ability to trade securities at "all hours" might be one of its attractions. One possibility might include the opportunity for companies listed on the exchange to be simultaneously listed on Nasdaq, giving access to the US capital markets.

"We are still in the very early stages of fleshing this out," Mr Hardiman said. While Nasdaq attributes much of its growth to its specialisation in the shares of small, entrepreneurial, high-growth companies, it is not clear that a European version would be equally successful.

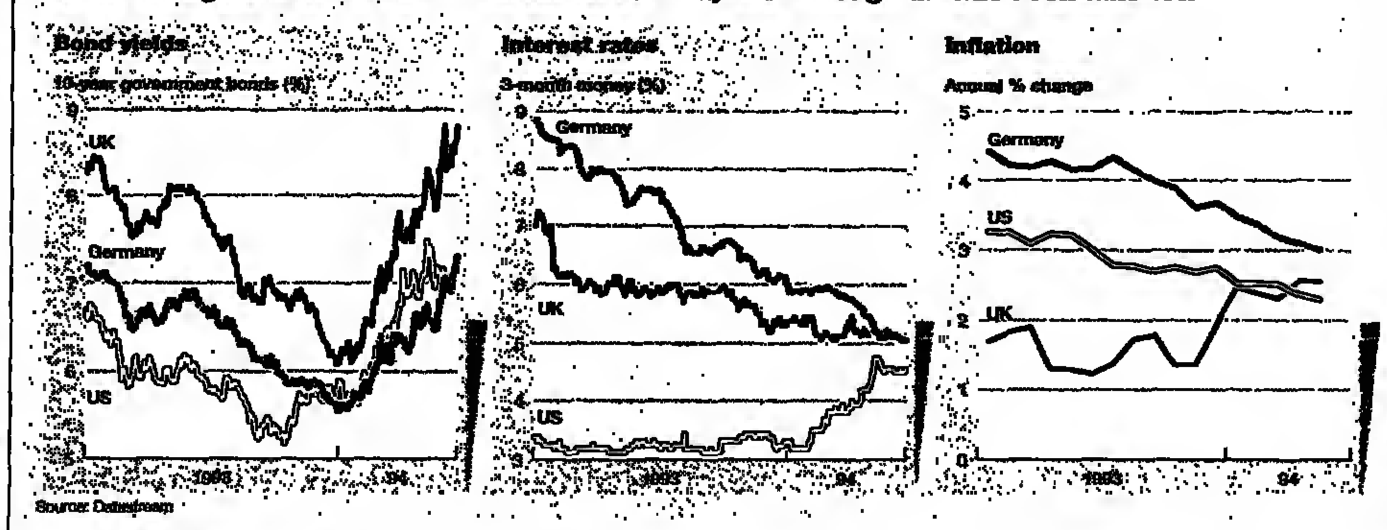
Mr Hardiman expressed disappointment that the London Stock Exchange had rebuffed his earlier suggestion that it should become a participant.

The London exchange recently announced its own plan to promote trading in shares of smaller companies.

Lex, Page 18

Conner Middelmann and Graham Bowley report on a continuing bear market

Yields diverge and short-term interest rates turn, even though inflation remains low



Source: Datastream

Rocky road offers no respite for bonds

Bond fund managers have had a rough ride in the first half of this year, and the second half is shaping up to be just as difficult.

Most investors expected last year's bull run to continue, fuelled by further cuts in European short-term interest rates and low-inflation economic growth. Instead, government bond markets have experienced a collapse in sentiment which has pushed up nominal 10-year yields in Europe by between 170 and 250 basis points since the end of 1993. Reversing last year's convergence trend, yields have diverged sharply, with the higher-yielding markets worst hit.

The yield spread of the UK 10-year gilt over the German hund has widened to about 150 basis points, from 41 at the start of the year; the French spread has expanded to plus 62 from minus 9; and the Italian yield premium has jumped to more than 350 from 256 in April.

The sell-off began early in the year, when hedge funds and other highly leveraged players took profits, offloading massive bond holdings. When on February 4 the US Federal Reserve raised short-term interest rates, this signalled the end of the low interest rate era and inflation fears prompted further selling.

Since then every piece of data showing strong growth in the US economy and recovery in Europe has triggered further falls in the bond markets. Rising commodity and oil pricea hava further fuelled fears of inflation.

In this bearish environment, most bond funds have put in a sorry performance. According to Micropal, the fund performance measurement service, 96 UK-based global bond funds posted an average loss of 6.4 per cent in the first five months of the year, with performances ranging between plus 5.2 per cent and minus 15.8 per cent.

So, what now? "Judging by the fundamentals, with low inflation and low interest rates, bonds everywhere look extremely cheap," says Mr John Shepperd, chief economist at Yamaichi International. "Yet we have been saying that for three months now and they are still getting cheaper by the day." After getting their fingers burnt, ling markets, most investors have embarked on a "buyers' strike" and are refusing to take on new positions.

Many say the markets' inflation paranoia is overdone. They point to the current benign environment – with inflation rates in the US, Germany and the UK at or below 3 per cent – and to forecasts that inflation will remain subdued for the rest of 1994. Yet bond markets continue to fall, and implied future interest rates in the money markets indicate that dealers expect European interest rates to rise before the end of the year.

But while inflation fears and other perceived risks may. have contributed to the rise in nominal yields, "the key is the rise in real yields", says Mr Shepperd.

Real yields – over and above inflation – have risen to about 4 per cent in the UK from 2.9 per cent at beginning of the year. The main reason is a sharp increase in supply: investors offloading their bond holdings, financial institutions offsetting losses in their marketmaking and proprietary trading activities, and, most importantly, government issues to finance large hudget deficits.

Real yields have also been driven higher by the pick-up in world economic growth. Capital will be needed to fuel that growth, and there is talk of an impending global capital shortage.

What is more, "there has been a sea change in the international economic policy environment", says Mr Neil MacKinnon, chief economist at Citibank in London. "Governments' commitment to keeping inflation down, rather than stimulate growth to reduce unemployment, is being doubted."

Political uncertainty in Europe's election year, further fiscal slippage, continued growth of Garman money supply and hints of disagreement in the UK between the central bank and the Treasury are fuelling doubts. "My advice to investors is to use any rally to reduce exposure to bonds," says Mr MacKinnon.

Ironically, the sharp rise in long-term yields may turn out to be a blessing. Higher long-term interest rates, to which a large amount of borrowing is pegged, may damp some growth optimism and resulting inflation fears that initially contributed to the bond sell-off. Mr John Lipsky, chief economist at Salomon Brothers in New York, says the increase in European yields "will undermine growth expectations directly".

Moreover, "the latest bond yield rise up will increase the pressure on European governments to tighten fiscal policy further, rather than watch passively as higher debt financing costs push budget deficits – and real long-term bond yialds – still higher", Mr Lipsky argues.

Some take an even gloomier view. "The risk is high that the world will sink back into recession before the end of the year," warns Mr Stephen Lewis, director of research at the London Bond Broking Company.

Many say the outlook for the second half hinges on US developments. If growth there shows signs of slowing, fears of further interest rate tightening may ease, allowing treasuries to stabilise. Until then, European bond markets are expected to be volatile.

"We are running defensive positions consisting of cash, short-dated paper and reduced exposure to the peripheral markets in favour of the core markets," says Mr Paul Abberley, head of fixed income at fund managers Lombard Odier. Historically, bear markets have lasted for two to three years. By that standard, the current bear market is still in its early days.

ICI picks outsider for chief

By Tony Jackson in London

Imperial Chemical Industries, the UK hulk chemicals company demerged from the old ICI a year ago, has underlined its break with the past by appointing an outsider as its new chief executive.

Mr Charles Miller Smith, an accountant, will join ICI from the Anglo-Dutch consumer products group Unilever. A former finance director, he now runs its food operations in southern Europe. He will take over next April on the retirement of Sir Denys Henderson as chairman. Sir Denys will be succeeded as chairman by the present chief executive, Mr Ronnie Hampel.

The appointment of an outsider to such a senior post in ICI is thought to be unprecedented. The present finance director, Mr Colin Short, was brought in from the US oil company Chevron in 1990. However, Mr Miller Smith will be in day-to-day charge of ICI, since Mr Hampel's joh as chairman will be part-time.

In the old ICI before demerger, the tradition was for the top job to be contested between rival barons from the operating divisions. However, as a result of the demerger and retirement, the old guard has heen largely swept away. Besides Sir Denys, Mr Hampel and Mr Short, the members of the slimmed-down executive board are all recent arrivals, and most are under 50.

Mr Miller Smith, 54, is thought to have been an unsuccessful candidate last year for the chief executive's joh at Barclays Bank, which went to Mr Martin Taylor of Courtaulds. In December he was pipped for the job of chairman elect at Unilever by Mr Niall Fitzgerald. His present job at Unilever involves running a business with a turnover of some £4bn ($6bn) about half the size of ICI.

ICI described Mr Miller Smith as "somebody different" from most other ICI directors. He has worked in Unilever's speciality chemicals division, and has spent time abroad, in India and the Netherlands. Like Sir Denys and several other ICI bosses before him, he is Scottish. He has also been a non-executive member of the ICI board for the past year.

Mr Miller Smith might be expected to succeed as chairman on the retirement of Mr Hampel, who is 62, in around three years' time.

Lex, Page 18

Foster's makes big move in China

By Nikki Tait in Sydney and Louise Lucas in Hong Kong

Foster's, the Australian brewery group, is joining forces with Wheelock, the Hong Kong-based trading house, to make a push into hrewing in China.

The companies said yesterday they were evaluating projects in the cities of Tianjin, Wuhan and Chengdu. They plan to spend US$1bn over five years.

Foster's already has two joint ventures in Guangdong province and Shanghai, and said its aims fitted neatly with Wheelock's strategy, which centres on the development of five "regional hubs" – Guangzhou, Shanghai, Wuhan, Chengdu/Chongqing and Beijing/Tianjin.

The Australian group has created a Foster's Asia division, incorporating existing Chinese interests. The decision to exploit Asian expansion opportunities comes as Foster's UK and north American interests are suffering from sluggish demand and extremely competitive conditions.

By contrast, Foster's pointed out yesterday that the beer market in China grew by about 23m hectolitres in 1993, to around 125m hectolitres – making it the world's second largest market after the US, easily surpassing the Australian total of 17m hectolitres.

It also pointed out that the Chinese brewing industry remained fragmented, with more than 800 breweries, only 10 of which produce more than 1m hectolitres and none above 2.5m hectolitres.

The move marks Wheelock's first foray into brewing. Mr John Hung, an executive director, said the group recognised brewing's massive potential in China.

Less than 10 per cent of Wheelock's assets are in China, but there are plans to increase this to a maximum of 20 per cent.

The venture will marry Foster's brewery skills with Wheelock's China know-how and property development expertise. Mr Hung said: "Wheelock has always been the party, in any joint venture, that brings to the table a number of things: local knowledge, financial strength, corporate muscle in Hong Kong and China connections, and will help seek sites."

The market leader is Tsingtao, the local brewer whose shares are traded in Hong Kong. However, foreign brands are jockeying for market share.

Top-level shake-up as Tetra Laval chief quits

By Hugh Carnegy in Stockholm

Tetra Laval, the leading Swedish packaging group, yesterday announced a shake-up of senior management following the sudden departure of Mr Uno Kjellberg as chief executive of the group's biggest division, Tetra Pak.

Tetra Laval said Mr Kjellberg, in charge of Tetra Pak for three years, was quitting due to differences with the group board over strategies at Tetra Pak, which makes systems for liquid food processing, packaging and distribution.

The privately-owned group gave no further details on the decision. "We cannot go into details without revealing information about our future strategies to our competitors," the company said.

It said Mr Gunnar Brock, head of Alfa Laval, which makes packaging machinery, would succeed Mr Kjellberg at Tetra Pak. Mr Lars Hallden, Tetra Laval group chief executive, would head Alfa Laval until a new chief executive was appointed.

The shake-up was the first sign of differences at the top level since Tetra Laval was created when Tetra Pak, owned by the Rausing family, acquired Alfa Laval for $2.5bn in 1991 in Sweden's biggest takeover deal. The two merged operations at the beginning of last year with the aim of providing complete food processing and packaging systems from the farm to the end consumer.

The secretive group, which employs 33,000 people worldwide, is divided into four divisions. It does not reveal profit figures, but says it had turnover in 1993 of SKr61bn. Tetra Pak accounted for SKr43.4bn ($177m).

Portuguese telecoms merged

By Peter Wise in Lisbon

Portugal's three state-owned telecommunications companies are to be merged today into a single unit. The new utility which will ha the country's largest company, is to be partially privatised by mid-1995, government officials said yesterday.

The creation of Portugal Telecom is the first step in a restructuring that will hring all the country's main telecommunications services under the management of a single state monopoly.

The utility is to be progressively privatised but the state will keep a "golden share," enabling it to veto strategic decisions. Privatisation is to begin next year with a public offer of 25 to 30 per cent. The operator would later seek an international partner, officials said.

Portugal Telecom will he formed from three companies: Telefones de Lisboa e Porto, which operates basic services in Lisbon and Oporto; Telecom Portugal, which runs services in the rest of the country and with Europe and the Mediterranean area; and Teledifusão Portuguesa, which beams television signals.

Subsidiaries of the three companies that operate mobile telephone, cable television and data transmission services are also to be brought into the new ntility. Portugal Telecom will have 22,000 employees and an estimated value of more than Es1,000bn.

Radio Marconi, which operates Portugal's intercontinental telecommunications services, will snbsequently he merged with Portugal Telecom. The officials said private investors, who own 49 per cent of Marconi, were expected to be given a choice of selling their shares to the state or exchanging them for shares in Portugal Telecom.

The government has not yet decided whether to sanction a proposal for a Es30bn ($224m) management buy-out of Marconi's 40 overseas subsidiaries and its 33 per cent holding in Telecomunicações Móveis Nacionais, a state-controlled mobile telephone operator.

Peugeot sees 'real chance' of profits

By John Ridding in Paris

Peugeot Citroën, the French car group, has a "real chance" of returning to profit this year, despite an expected slowdown in the growth in the European car market, Mr Jacques Calvet, chairman, said yesterday.

Addressing a shareholders' meeting, Mr Calvet said it was still too early to say whether the company would achieve its three financial aims for this year – a return to profit after losses of FFr1.4bn ($250m) in 1993, covering investments through cash flow and a sharp reduction in group debt.

The Peugeot chief said, however, that "the first indications we have been able to get lead us to think that barring a shake-up in the car or currency markets, our chances of succeeding are real".

According to Mr Calvet, sales rose strongly in the early part of the year. In France, he said, sales had increased by 16 per cent in the first five months, partly because of government measures to stimulate the industry. These measures inclnded paying FFr5,000 to car owners who trade in vehicles more than 10 years old to buy a new one.

The impact of these measures has, however, begun to wear off. Mr Calvet described the recovery in the European and French car markets as fragile, and partly artificial.

Mr Calvet said that hard times still lay ahead, resulting from overcapacity in the market, and uncertain demand. As a result, Peugeot Citroën will continue to cut costs. This year, the company would again aim for a 12 per cent improvement in productivity, Mr Calvet said.

Rationing introduced at Louis Vuitton

By Diane Summers and Alice Rawsthorn in Paris

Louis Vuitton, the French luxury luggage manufacturer, is rationing customers to one or two purchases at a time because of a surge in demand for its products, Mr Yves Carcelle, chairman, said yesterday.

The company, part of the LVMH group, saw sales of more than FFr5bn ($890m) last year – an increase of more than 20 per cent on the year before. New factories are under construction to meet the demand, which is particularly strong from Japanese customers who huy up to half of the 2m exclusive items a year.

The rationing means that customers visiting any of Louis Vuitton's 175 shops around the world are being told politely they can only huy one item or, for some lines, two items.

Handbags are typically priced at £250-£400, while cabin trunks are upwards of £4,000 ($6,080) apiece.

The rationing harks back to hullish era of the mid-1980s when Chanel, the Paris fashion house, faced so much demand from Japanese tourists for its classic quilted leather handbags that it limited them to one bag each. One group of tourists was caught trying to bribe passers-by ontside Chanel's flagship store on Rue Cambon in Paris to persuade them to go in and buy more bags from them.

Louis Vuitton is not the only luxury company to have experienced healthy growth since the start of this year. Cartier, the French jewellery group, has fared well, as has Hermès, the silk and leather house.

One of the chief catalysts for the revival has heen an improvement in the US and UK markets as economic conditions have improved.

However, the main source of growth in the late 1990s is expected to be the emerging Asian economies – such as Taiwan, the Philippines and even China – which could, or so the industry hopes, become as dynamic as Japan was in the mid-1980s.

Lotus enters the persuasion market

The computer group is convinced it is taking the right path, says **Alan Cane**

Is Lotus Development Corporation suffering one of those bouts of technical gaucherie which ovartakes every software house from time to time, or is its predicament evidence of a deeper malaise?

If the latter, is it a local difficulty or one that is afflicting the entire packaged software industry? There is growing speculation that Lotus's troubles are harbingers of a wave of change which will reshape the global packaged software industry. "All the large software houses are in for a very rough time until the end of the decade," says Mr Richard Holway, a leading industry analyst.

Lotus warned on Monday that its quarterly earnings to the end of June were likely to be only 20-25 cents a share compared with 34 cents a year ago and analysts' expectations of nearly 50 cents.

The market, surprised and shocked, reacted hy marking the shares down $14¾ to $37, some $50 off the peak for the year. It queried whether Lotus was losing market share to Microsoft, its principal rival.

Lotus this week brazened it out, claiming thet the slippage was a one quarter issue, the result of delays in upgrades to a number of its software products. The underlying strength of its communications products business was not in doubt, it said.

Mr Ed Gillis, Lotus chief financial officer, said yesterday that software houses find their sales boosted for the two quarters after new product introductions. Lotus intended to launch six new products in July and August, so he was confident of an improved financial performance in the later part of the year.

It is a persuasive argument. Every software house experiences technological difficulties which force them to delay or postpone products and upgrades. It took Microsoft, the world's largest personal computer software company, five years, for example, to bring a commercially successful version of "Windows", the best-selling graphical interface for its MS-Dos operating system, to market.

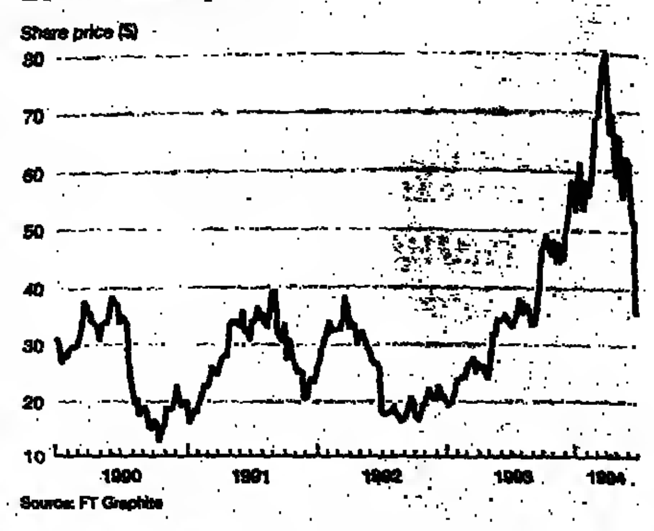
According to Mr Gillis, the present delays are because of the complexities of integrating suites or collections of programs so they interwork with one another; a change to one program means further work on all the others.

Lotus, furthermore, seems to be an exception to the rule that software houses are "one product wonders" which cannot replicate early successes.

After making its reputation in the 1980s with the market leading spreadsheet "1-2-3", it had a fallow period in terms of new, exciting products until the past couple of years when "Notes", software which makes it possible for groups of people to share information, began to find favour with large organisations. Andersen Consulting has installed Notes worldwide and AT&T has formed a joint venture with Lotus to market Notes to a broader audience.

Notes is the undisputed leader in this "workflow" software which accounts for 30 per cent of Lotus' $1bn revenues.

Lotus Development



Source: FT Graphite

The larger threat, however, which applies to every software house, including Microsoft, is pricing. The cost of packaged software is falling in a fashion reminiscent of the collapse in computer hardware prices. Global figures are hard to come by but Mr David Tremblay, research director of the Software Publishers Association whose members include all the large US software developers, points out that unit shipments of packaged soft ware grew 75 per cent in Europe last year but prices failed to keep pace. : "Aggressive pricing by publishers has limited revenue growth for Europe to 11 per cent" - a 37 per cent decline in unit price in a year.

The pattern is evident in the US, where software publishers have taken the lead in offering software at seemingly unprofitahle prices. Borland International, for example, cut the price of its spreadsheet to $49.99. It has since sold its spreadsheet product line to Novell.

A second approach, pioneered by Microsoft, has been to sell a bundle of programs at a heavily discounted price.

Lotus is advertising a suite of five of its most popular programs for £299 ($454) (£199 to existing Lotus users), a price which one analyst described as "suicide". One of the programs, 1-2-3, has a recommended retail price in the £300 region.

Analysts believe that tha trend to lower prices is inexorabla and that software houses must branch out into services, a tack now being adopted by most hardware companies, if they are to maintain margins and survive. Mr Gillis says Lotus is already moving in that direction with its Notes workflow products. Tha decline in Lotus' share price over the past year indicates that investors may not share his confidence.

Royal Bank sells its £116m stake in 3i

By John Gapper, Banking Editor

Royal Bank of Scotland yesterday disclosed that it had sold its entire £116m ($176.32m) stake in 3i, the largest European investor in unquoted companies. The announcement came as 3i set a price of 272p per share for the flotation of £711m of equity.

Royal Bank sold because a diluted stake would have stopped it taking increases in 3i's net assets into profits. Bank of Scotland retained its shares, while National Westminster remained the biggest holder, with 17.9 per cent.

3i said it was pricing the shares at a 13.5 per cent discount to net assets, and it was selling 45 per cent of its equity – rather than 40 per cent – because of strong demand.

The company, owned by seven high street banks and the Bank of England since its formation in 1945, revealed details of a £36m share option scheme for 140 senior managers intended to discourage them from leaving. The options would cost £18.7m to exercise and net the managers £17.3m at the offer price. The scheme has been in place since 1984 and requires managers to wait for three to 10 years to exercise options.

Mr Ewen Macpherson, chief executive, said that although 3i had a unique franchise, it was "an extremely good training ground for a variety of other companies".

3i confirmed it had received bids of £1.2bn from mainly UK institutional investors during the bookbuilding exercise. This was more than twice the £533m placed firmly with institutions.

Lex, Page 18; Banks' decisions, Page 26; Observer, Page 27

Air France asked to speed up sale of hotels chain

By John Ridding in Paris and Michael Skapinker

The French government has asked Air France, the state-owned airline, to re-open negotiations with bidders for a controlling stake in its Meridien Hotels chain for a rapid conclusion of the sale.

The negotiations will be based on a report by France's privatisation commission, an independsnt body which advises the government on the sale of public sector assets, according to the economics ministry yesterday.

Forte, the UK hotels group, and Accor of France, are vying for control of the Meridien, in which Air France holds a 57 per cent stake. A decision on their bids was delayed in April and the dossier was sent to the privatisation commission for its opinion.

The economics ministry said Mr Edmond Alphandéry had recently received the views of the privatisation commission on the relative merits of the two bids.

The ministry said the report identified the questions which needed to be discussed in greater detail with the bidders. However, it indicated that it did not express an overall preference.

Once an agreement has been reached between Air France and the successful bidder, the choice will be presented to the privatisation commission.

No deadline has been set.

Yesterday's announcement coincided with news that the Meridian hotels group fell into a net loss of FFr29.7m ($5.3m) for 1993, compared with a profit of FFr112m for 1992.

The battle for control of Meridien has become highly sensitive.

Forte's is the higher bid, valuing the luxury hotel chain at FFr1.8bn compared with the FFr1.6bn offered by Accor and its partner, Prince Al-Waleed Bin Talaal of Saudi Arabia.

Meridien's management has expressed a preference for the Forte bid, but political pressure has been brought to bear to keep the hotels chain under French control.

Forte yesterday welcomed the French government's call for the decision to be taken quickly. It said thet further delay could lead to Meridien managers leaving and the chain losing contracts to manage hotels.

It said it expected to be given further details of the government announcement in the next few days.

Air France, which suffered losses of FFr8.48bn last year, needs to raise cash to reduce debts.

Microsoft and NTT in multimedia alliance

By Michiyo Nakamoto in Tokyo

NTT, the Japanese telecommunications company, and Microsoft, the US software group, have agreed to co-operate in developing an interactive multimedia system that could take Japan's ambitions in this area a step further towards realisation.

Multimedia provides interactive text and video services to the home and office.

The two companies are to develop the hardware and software, such as video-on-demand, from both the supplier and customer ends.

The agreement follows a deal announced in March for the two companies to develop a software distribution system. It brings together two of the most powerful companies in their respective industries.

Under the deal, NTT will participate at the end of this year in an interactive multimedia system being tested by Microsoft and TCI, the US cable company.

Microsoft, in turn, will provide its multimedie system software for tests by NTT, which will begin in 1995. The outcome of the joint development will be used for these tests.

The interfaces the two companies will co-operate to develop could include the links between the set-top box and telecommunications networks, the server and networks, applications and set-top boxes, and the server and service programmes, Microsoft said.

The set-top box is the hardware connected with the terminal, typically a television set, to allow users to send and receive interactive information.

The server is a storage and processing unit that stores information such as video, sound, voice and data and sends snch information to users or receives information back from users.

Searching for consensus on risk assessment

Traders and market regulators are changing their focus, reports Tracy Corrigan

Fears about derivatives risk have tended to centre on credit risk, potentially snowballing into systemic risk and bringing about the collapse of the international financial system.

But there is a growing school of thought which argues that this focus is misplaced. According to many market participants, market risk is a much more fundamental danger than credit risk, and existing measures for risk management are often misguided.

Because derivatives are highly leveraged, losses on market positions have been exaggerated, and volatile conditions this year hava caused assumed correlations between markets, on which hedging of derivatives is often based, to evaporate. Consequently, volatile markets can prove more dangerous for the derivatives trader than for the cash market trader.

In fact, many derivatives specialists argue, credit risk in the derivatives market only becomes a serious problem as a result of market risk: in most cases where heavy losses have been incurred, it has been as e result of a lack of understanding of market risk. Credit risk, on the other hand, is arguably the same for derivatives as for other markets. In its recent report on derivatives, the US General Accounting Office concluded from its survey of 14 US participants that the net credit risk from derivatives at the end of 1992 was only $68bn – much smaller than for loans. (This assumes that netting of derivatives is enforceable).

DERIVATIVES

Regulators who are primarily concerned about credit risk could be barking up the wrong tree. Many market participants think they are, arguing that regulators pay too little heed to the way that derivatives specialists look at risk. For a derivatives trader, the key issue is the present value of a particular position, and an important part of the job is to create models to calculate this, using historical data.

The Basle Committee is currently working on new capital rules for market risk, but the approach detailed in consultative papers circulated last year has been widely criticised by market participants as bureaucratic and antiquated.

In a recent speech, Mr William McDonough, president of the New York Federal Reserve, noted that market participants are arguing thet "the market risk measurement models the banks had developed for their own risk management offered a means to measure capital requirements with greater precision and with much lower regulatory burden than the proposed supervisory model." Mr McDonough described the consideration of a models-based approacb as "a major step for the international supervisory community," but did not rule it out.

The problem, though, may extend beyond regulators, touching the entire conceptual approach to derivatives. Many regulators come from a loan officer tradition or an accounting tradition, and therefore their approach may be fundamentally at odds with the wey the market actually functions.

This explains, too, the growing sense of dissatisfaction with the accounting treatment of derivatives, which means that information in company reports on derivatives business is often meaningless.

"Accounting should reflect economics," argues Mr Flavio Bartman, managing director, commodity derivatives at Merrill Lynch. "We have principles of accounting that were drafted for a world where you only had bonds and stocks."

According to Mr Michael Black, bead of consultancy at CSC Index, who advises firms on derivatives risk management, "accounting systems define value in terms of capital; derivatives in terms of the net present value of a position: these are apples and pears."

Similar problems may arise within the senior management of banks, whicb often focus tco closely on return on capital, according to Mr Black.

Derivatives traders themselves, of course, have their own vested interests and preconceptions. But, increasingly, finding transferable values which allow traders, regulators, accountants and senior managers to discuss risk management in the same terms is becoming one of the goals of the current debate.

Police seize papers at Ferruzzi unit

By Robert Graham in Rome

Police yesterday seized documents from the Milan headquarters of Gaic, the finance company controlled by Ferruzzi Finanziaria and the family of Mr Camillo De Benedetti.

The move was ordered by Ravenna magistrates investigating the parallel accounting and alleged illicit financial operations of the Ferruzzi group that forced its collapse last June.

It is a potentially important development, in that part of their investigation concerns the behaviour of Mediobanca, the Milan merchant bank, which was given a mandate to restructure the Ferruzzi group's L30,000bn ($18.7bn) debts on June 4 1993.

Until a year ago, Gaic held a majority stake in Fondiaria, the insurance group. The documents seized relate to a board meeting of June 29 1993, which decided to raise L1,000bn for Fondiaria. Since Gaic lacked the funds to subscribe to the issue, the capital move in effect removed Fondiaria from Ferfin's control. The Ravenna magistrates are trying to establish at what point Mediobanca was given full control over the Ferruzzi rescue, and the role played by the merchant bank in the Fondiaria affair.

Executives at Mediobanca and three other banks involved in the Ferruzzi rescue bave been questioned as to whether they had prior knowledge the group's accounts were false, concealing losses of L430bn.

All have denied improper banking conduct.

S&P changes outlook for Exxon to negative

By Richard Waters in New York

Standard & Poor's, the US rating agency, put another question mark over the top credit rating of Exxon after last week's jury verdict that the US oil company had acted recklessly in the Exxon Valdez oil spill in Alaska in 1989.

The agency affirmed Exxon's triple-A rating, but changed the outlook to negative. This echoed an earlier move by Moody's, the other leading US rating agency.

Tbe jury verdict leaves Exxon open to an assessment for punitive damages of up to $15bn, in addition to actual damages claimed of $1.5bn. The company has argued it should not pay any punitive damages.

Exxon, witb Royal Dutcb/Shell, has long beeo seen as one of the strongest credits in the energy industry.

Bombardier buys Eurotunnel shares

By Robert Gibbens in Montreal

Bombardier, the Canadian aerospace and transport group, has been buying Eurotunnel shares on the stock market.

Mr Laurent Beaudoin, chairman, speaking at Bombardier's annual meeting, said he regarded Eurotunnel's share price following the rights issue as highly attractive. Bombardier would not reveal the size of its purchases.

"We may well buy more Eurotunnel shares in the near future, though we don't have any specific target," he said.

"We are convinced Eurotunnel shares will rally sharply as the Channel Tunnel system comes into full operation in the next year and revenues build up. We are confident the stock will prove an excellent investment for Bombardier shareholders."

Bombardier took delivery of 25m Eurotunnel shares following the completion of the Eurotunnel rights issue as partial compensation for design changes and cost over-runs on its $600m shuttlecar contract for the tunnel. It also has received C$157m (US$120.7m) in cash.

However, it cannot sell any of the block of Eurotunnel shares until the last shuttlecar is delivered next year.

Mr Beaudoin announced a 34 per cent increase in Bombardier profits for the 1994 first quarter and said the gain was indicative of results for the full year.

Business is strong in all divisions from aerospace, transit equipment to snowmobiles, watercraft and financial services. Losses on the transit equipment side have been reduced and aircraft deliveries will total more than 100 units this year.

Bombardier is close to approving plans to build a 70-seater regional jet. Mr Beaudoin said the decision would be made before the end of the year.

Mycom expands in lottery group

Mycom, the Malaysian gaming and property group, plans to acquire a 51 per cent stake in Richland Worldwide which has interest in a Papua New Guinea gaming company, Reuter reports from Kuala Lumpur.

Mycom will buy the Virgin Islands-incorporated Richland stake for US$5m in cash. Richland owns a 70 per cent interest in The Lotto, a company which operates a lottery business in Papua New Guinea.

Parker & Parsley files suit against Bridge bid rival

By Nikki Tait in Sydney

Parker & Parsley, the Texas-based oil independent which is bidding for Sydney-based Bridge Oil, has begun legal proceedings against Gantry, the rival suitor for Bridge, in the Dallas district courts.

Gantry is the bid vehicle being used by JEDI, an investment partnership owned jointly by Enron, the US natural gas company, and the California Public Employees Retirement System, one of the biggest US public pension funds.

On Monday, Gantry entered the bidding for Bridge, offering 85 cents a share in cash and valuing the Australian company – whose assets span both the US and Australasia – et A$356.7m (US$274.3m).

This topped the P&P offer, increased only minutes previously, of 80 cents at share.

P&P said that its suit alleged breaches of the US Securities Exchange Act, under which companies making e tender offer are prohibited from purchasing shares outside that offer, unless a waiver has first been obtained from the US Securities end Exchange Commission.

It has also sought an order barring Gantry/JEDI from buying shares in Bridge, outside of the tender offer.

Meanwhile, P&P said it planned to have "petroleum engineering staff examining and evaluating data" related to Bridge Oil's US subsidiary with the aim of "fully evaluating options regarding the current offer of 80 cents a share".

P&P claimed that Gantry, whose bid has been recommended by the Bridge board, had access to additional, non-public information at Bridge Oil (USA). It has demanded similar access.

Bridge shares remained pegged at the 85 cents price bid by Gantry for most of yesterday, although one trade after the market closed lifted the shares to 86 cents.

● The A$500m bid by Mr Graeme Hart, a New Zealand businessman, in conjunction with Coles Myer, for Australia's Foodland Associated has been referred to the federal Treasury, "to examine potential implications for competition policy".

Under the proposed deal, Coles – one of Australia's largest retail groups – could end up owning the Australian assets of Foodland. This could give Coles a significant stake in the West Australian grocery market.

In the federal parliament, Senator Peter Cook, industry minister, said the government was watching events closely.

Burns Philps in A$117m German purchase

By Nikki Tait

Burns Philps, the Australian group which has been pruning its diverse business interests in order to concentrate on "core" food and ingredients operations, is buying Deutsche Hefewerke, e German baking yeast and yeast extract business, for around A$117m (US$90m).

DHW is being sold by Veba, the large German energy, chemical and trading group, and comprises three factories, in Hamburg, Nuremberg and Leipzig. It has annual sales of around DM100m ($61.3m) and employs some 315 people.

In Sydney, Burns said that the deal, which is still subject to approval by Germany's Federal Cartel Office, would lift its share of the global yeast extracts market to around 15 per cent. Its share of the German baking yeast market would stand at around 30 per cent.

Burns Philps already owns Mauri Products, a yeast manufacturer in the UK and has been aggressively building up overseas food ingredient interests recently.

Earlier this year it purchased Ostmann, Germany's biggest retail spice manufacturer. Burns said it saw "synergistic benefits" from combing its existing yeast and spices businesses with DHW.

Liberation movement lifts Latin America

The region has been one of the main beneficiaries of free capital, writes Philip Coggan

There have been many liberation movements over the last 30 years. But while women and some national minorities may still be battling for their freedom, there is one constituency which has been remarkably successful in liberating itself – capital.

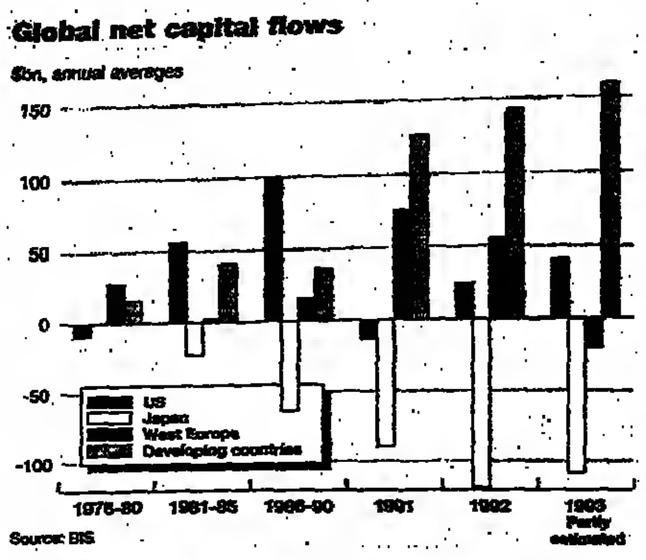
Before the breakdown of the Bretton Woods exchange rate system in the early 1970s, it was time-consuming, expensive and difficult for citizens of most industrialised countries to buy foreign assets.

Now, after two decades of liberalisation and deregulation, freedom to own capital abroad has extended beyond the industrialised countries to include the "emerging markets" of Asia and Latin America.

Figures from the Bank for International Settlements' annual report, published last week, show the scale of today's international capital markets. In the first half of the 1980s, gross capital outflows from the major industrial countries (excluding official and short-term banking transactions) were around $100bn e year. By 1993, flows reached $850bn.

While the recent falls in world bond and equities markets may bave slowed the relentless acceleration of such flows, it seems likely that growth will resume.

In the 1990s, the emerging markets have been the fashionable home for international investments. According to the BIS, net inflows into the developing world rose to around $160bn in 1993, from an average of $37bn a year in the period from 1986 to 1990.



The BIS said that capital has been particularly directed to Latin America (where inflows amounted to almost 5 per cent of GDP last year) and to lower wage Asian developing countries (about 4 per cent).

These capital inflows have been broadly welcomed as a return to the "correct" flow of capital between developed and developing countries – a trend which was interrupted by the debt crisis of the 1980s.

But the BIS warns that there were important differences in the nature of the inflows to the two regions – differences that might create problems for Latin America in later years.

According to the BIS: "A large proportion of Asian capital inflows has been closely linked to increased domestic investment and imports of investment goods. This has contributed to real exchange rate stability in the region and has also helped to prevent excessive increases in domestic liquidity. In Latin America, by contrast, the influx of foreign capital – dominated by portfolio and short-term financial flows – was less directly associated with increased imports of investment goods and there was a greater degree of upward pressure on real exchange rates."

One reason why so much short-term capital flowed in to Latin America was high real interest rates. Combined with liberalisation measures by local governments, this encouraged the repatriation of some of the flight capital which left the region during the 1980s.

Many currencies in the Latin American region failed to depreciate against the dollar as quickly as inflation differentials suggested. As the BIS comments, "this made investing in short-term assets denominated in local currency attractive at a time when US short-term interest rates were unusually low."

The real appreciation of the Latin American currencies was probably boosted by the scale of the continent's economic and financial reforms. The Asian countries had been much better at controlling inflation and restraining their fiscal deficits. In Latin America, however, policies in both areas had been lax, and accordingly the change in sentiment, which followed the implementation of reform programmes, created sharp upward pressure on the region's currencies.

But the impact of an appreciation in the real effective exchange rate, says the BIS, is likely to be a deterioration in the competitiveness of an economy's tradable sector and therefore e deteriorating current account deficit.

Investment in Asia has been much higher than in Latin America, helped by high domestic savings rates. By investing in the export-creating manufacturing sectors, some (but not all) Asian countries have been able to offset pressure on their current accounts.

The BIS says further reforms are needed in Latin America if the region is to hold on to the benefits achieved through recent stabilisation programmes. Infrastructures need to be improved in many countries; the problem of poverty needs to be tackled, to prevent social unrest undermining the reform climate; and domestic financial markets need to be reformed to help countries cope with the effects of the massive capital inflows they have received.

Furthermore, the inflows have increased Latin America's vulnerability to external shocks, such as higher international interest rates. This problem has already been seen this year in the sharp fall in Latin American debt markets, which followed the US Federal Reserve's decision to push up short-term interest rates.

To date, the developing countries have mostly seen the positive side of the expansion of the international capital markets. The strength of their financial systems (and their commitment to liberalisation) may be tested when the flows start to reverse. In this regard, Latin America may be more vulnerable than Asia.

Zambia Consolidated Copper falls into red

By Kenneth Gooding, Mining Correspondent

Zambia Consolidated Copper Mines, the world's fourth-largest copper producer, yesterday revealed a net loss of K72.6bn ($99m) for the year ended March. It had previously warned of a poor result.

In the previous 12 months there was a net profit of K41.6bn.

However, Mr Edward Shamutete, chief executive, said last month that although production difficulties caused a loss in 1993-94, ZCCM expected to break even in the current year and to be profitable in 1995-96.

ZCCM, which is listed in London, is being prepared for full privatisation by the Zambian government which owns 60 per cent, but the timing is far from clear. Anglo American Corporation of South Africa owns 27 per cent of ZCCM via Zambia Copper Investments.

At the operating level, ZCCM made a profit of K4.9bn last year down from K108bn. Copper production fell from 432,000 tonnes to 392,000 tonnes.

Petron shares up for auction

The Philippine government will auction to the highest bidder 300m shares in Petron, the country's biggest oil refiner, Reuter reports from Manila.

Mr Delfin Lazaro, Energy Secretary, said: "It is possible that a single bidder can acquire all 300m shares." A further 700m will be sold at a fixed price of between seven and 11 pesos (US 40 cents).

The government plans to retain 40 per cent of Petron through Philippine National Oil.

Petron is expected to be listed on the Philippine Stock Exchange by September.

SA eco-tourism group expands

By Mark Suzman in Johannesburg

Conservation Corporation, the South Africa eco-tourism group, plans a R66m ($18m) expansion into east Africa through the purchase of two wildlife lodges in Kenya and Tanzania and a share of an important hotel group in the region.

The two lodges, Kichwa Tembo Camp in Kenya and Ngorongoro Crater Lodge in Tanzania, and the hotel group, Windsor Hotels, are part of the Abercrombie and Kent Group.

The deal has been financed through a R15m issue of new Conservation ordinary shares to the vendors and R51m in cash, which was raised through rights issues partially underwritten by Hambros Bank in London.

Mr Geoffrey Kent, Abercrombie and Kent chairman, will become joint chairman of Conservation with Mr David Varty, the current chairman. Mr Steve Fitzgeral, former chief executive of Halcyon Hotels, has been appointed managing director.

According to Mr Alan Berstein, Conservation's deputy chairman, the move signals a belief in the strong potential of African tourism.

"We expect to be very well positioned to take advantage of a positive trend in the South and east African tourist markets," he said.

Conservation, which was founded four years ago, is regarded as one of the premier eco-tourist operations in South Africa, where it runs four game lodges.

The Abercrombie deal is widely seen in South African financial circles as a precursor to a stock market listing in the next couple of years, either in London or Johannesburg.

Investment bank set up in Czech Republic

By Vincent Boland in Prague

Three former executives of CS First Boston's Prague operations yesterday launched the first fully Czech-run investment bank catering to the country's growing number of corporate and private clients.

The new bank, Patria Finance, is headed by Mr Zdenek Bakala, who once worked in corporate finance with Drexel Burnham Lambert in New York.

Patria Finance has start-up capital of Kcs100m ($3.57m), and is 75 per cent owned by its management. A group of Swiss investors owns the balance.

Mr Bakala said Czech corporate clients are largely ignored in the country's financial services market. Investment banking services are currently offered either by commercial banks as a supplement to their core lending activities or by international investment banks which cater to overseas clients and operate with "little regard for the specifics of the emerging local capital market".

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh
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Fed reassurances help recovery in US and Europe

By Frank McGurty in New York and Graham Bowley in London

US and European government bond markets recovered some of their recent losses yesterday, prodded by a firmer dollar and reassuring comments on inflation from Mr Alan Greenspan, chairman of the US Federal Reserve.

By midday, the US benchmark 30-year government bond was 23/32 higher at 85 29/32. The yield eased to 7.43 per cent, well below the 7.50 per cent mark breached the previous session. At the short end, the two-year note was 1/16 better at 99 31/32, to yield 6 per cent.

Mr Greenspan told the US House budget committee that the outlook for US inflation was "quite reasonable", and that "monetary policy is dedicated to making sure that it stays there".

The improvement followed a firming trend by the US currency, which had set a post-war record low against the yen during Tuesday's trading session. Gains struck by the dollar yesterday allowed traders to take advantage of bond prices driven lower in recent days by fears of an imminent tightening of monetary policy.

GOVERNMENT BONDS

The market's attention was focused on Capitol Hill, where the Federal Reserve chairman, Mr Alan Greenspan, testified before the House budget committee. Fixed-rate investors were looking for clues on the timing of the central bank's next rate increase, especially during the question-and-answer period which followed the Fed chief's remarks. His comment that the Fed could not ignore currency movements did not pass unnoticed by traders.

Meanwhile, commodity prices were co-operating again, with gold and the Commodity Research Bureau's 21-product index both extending their recent string of declines.

■ The European rally, which came late in the afternoon, saw German government bonds rise by about one point. It followed an earlier technical squeeze upwards in most European markets, as traders moved to cover short positions.

"The rebound was largely technical, and a result of the largely bullish noises coming from the US," said Mr Ian Shepherdson, economist at Midland Global Markets in London.

"There was nothing new from the Fed, but in a bear market where people are expecting only bad news, reassurance that what the Fed is doing is moving monetary policy into neutral to combat inflation is welcome," he said.

■ German government bonds moved higher in response to Mr Greenspan's comments, and as a result of the slightly firmer tone to the dollar.

The market moved higher in early trading, as investors moved to cover short positions. "It broke through important technical levels around 90.65 and found support to move higher from there," said one trader in Frankfurt.

Analysts said attention would be on today's Bundesbank meeting at Potsdam, near Berlin, after which there will be a press conference. They will be keen to hear the Bundesbank's latest views on inflation and M3 money supply growth. Also of interest is US durable goods data published today.

The Bundesbank yesterday allowed the repo rate to fall 5 basis points to 5 per cent. This was in line with expectations and had little impact on the market. The September bund contract was up 1.93 points at 92.29 in late trading.

■ UK government bonds moved higher, taking heart from Mr Greenspan's remarks and the fact that the published minutes of the May 4 meeting between the UK chancellor and the governor of the Bank of England showed no immediate inclination to raise interest rates.

"There was some relief, especially for the short-end of the market, that a rate rise was not considered and, after Mr Greenspan side-stepped the issue of the recent dollar weakness, fears of an imminent rise in US rates [were allayed]," said one analyst.

The long gilt future was up 1 19/32 points in late trading at 100 1/32.

■ The French and Italian government bond market moved higher in line with the rest of Europe. Italy in particular performed well, buoyed by remarks from Treasury and Bank of Italy officials concerning the need to control the Italian budget deficit.

The September notional French bond futures contract on Matif closed at 113.44, up 1.14 points on the day. The Italian September BTP futures contract on Liffe was up 2.50 points at 103.85 in late trading.

Taiwan groups on the road with $700m in issues

By Laura Tyson in Taipei

Two big stock market-listed Taiwanese companies are launching global roadshows this week for equity-linked bond issues worth $700m. The deals reflect the increasing appetite of local companies for overseas funds.

President Enterprises, Taiwan's biggest foods conglomerate, will kick off an international roadshow in Hong Kong today aimed at promoting the $100m issue of what will be Taiwan's first exchangeable bond issue.

The issue will be lead-managed by Bankers Trust, with Banque Paribas as co-lead, a senior finance manager at the group said.

To avoid dilution of shares in the parent company, the bonds may be exchanged into shares in Tonyi Industrial Corp, a listed subsidiary and Taiwan's biggest producer of tin plate.

Formosa Chemical & Fibre and Nanya Plastics, part of the Formosa Plastics group, earlier this week began a joint tri-continental tour in Singapore to raise $300m each through a convertible bond issue.

The coupon rate is expected to be between 1.75 and 2 per cent, and the conversion premium will be set at between 5 and 10 per cent, according to a manager in Formosa Plastics' finance department.

The funds will be used to finance a $7.8bn naphtha cracker complex. Formosa Plastics is Taiwan's biggest private-sector conglomerate.

Formosa Plastics itself plans to issue another $300m in convertible bonds later this year.

Euroconvertible bonds have now been issued by 16 Taiwanese companies, and five have issued global depository receipts.

Under existing Taiwan securities regulations, foreign holders of equity-linked bonds issued by Taiwanese companies are not permitted to convert them into listed shares.

However, it widely understood the government is considering a change in the conversion laws, possibly within the next two years.

German bank postpones rights launch

Bayerische Hypotheken-und Wechsel-Bank, Germany's fifth largest bank, has postponed a DM1bn rights issue indefinitely because of weak stock market conditions, writes David Waller in Frankfurt.

The 1-for-10 issue was announced in early May, shortly after the Bavaria-based bank reported a 33 per cent rise in earnings for last year. Since then, bank shares have underperformed the DAX index of leading German shares.

Meanwhile, Daimler-Benz, Germany's biggest industrial company, insisted it would not pull its DM3bn international offering. This is in spite of a narrowing of the gap between the price of the new shares and the market price, from 20 per cent when first announced to 13 per cent yesterday.

Warm reception for Fannie Mae global debut

By Antonia Sharpe

Fannie Mae, one of the world's biggest issuers of long-term debt, could become a regular borrower in the international bond market following its successful debut yesterday.

INTERNATIONAL BONDS

With extensive pre-marketing, the triple-A rated US mortgage agency's $1.5bn offering of 10-year global bonds was received favourably by investors. The warm reception enabled the bonds to be priced to yield 25 basis points over US Treasuries, in line with market expectations.

Joint lead manager Merrill Lynch said strong demand from European investors, and the fact that the bonds were not callable, had allowed Fannie Mae to achieve better funding rates than in the domestic US market, where its bonds traded at a yield spread of around 29 basis points over Treasuries. Many of Fannie Mae's domestic bonds are callable.

Ms Linda Knight, Fannie Mae's treasurer, said the agency had delayed its entry into the international bond market to await the fruits of its efforts to build up a domestic market in callable bonds. This market was now a powerful funding tool for the agency, which last year issued $46.4bn worth of long-term debt. It is likely to raise similar amounts this year.

However, Ms Knight said the change in the interest rate climate this year had prompted Fannie Mae to increase its issuance of non-callable debt. She said she had opted for the global bond market, where spreads were tighter than at home and where the lack of high-quality borrowers worked in Fannie Mae's favour. "Now that we have developed the capability in the global bond market, we could well come back," she said.

J.P. Morgan, the other joint lead manager, said at least 60 per cent of the offering had been placed with European and Asian investors.

However, other syndicate managers said only time would tell whether or not such a large proportion would stay outside the US in the long run.

Fannie Mae's smooth entry bodes well for Freddie Mac, the other US mortgage agency scheduled to launch its first global bond offering early next month. This deal is likely to raise at least $1bn, but have a shorter maturity.

The market was less enthusiastic about Austria's £200m offering of 10-year eurobonds, which several syndicate managers said was hampered by continuing fragility in the UK government bond market. They also thought the pricing, to yield 22 basis points over comparable gilts, was at least five basis points too tight.

● Standard & Poor's, the international rating agency, has lowered the long-term senior rating of Crédit Lyonnais, to A-minus from single-A, to reflect the severe asset quality pressures which have affected the French bank. The outlook on the rating is negative.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Fannie Mae	1.5bn	7.40#	99.75R	Jul.2004	0.325R	+25 (7¼%-04)	Merrill Lynch/JP Morgan
STERLING							
Republic of Austria	200	9.00	98.68R	Jul.2004	0.325R	+22 (6¾%-04)	Merrill Lynch International
CANADIAN DOLLARS							
Rabobank Nederland	100	9.75	99.775R	Aug.2004	0.325R	+20 (6½%-04)	Wood Gundy
Prudential Funding Corp.	75	9.00	99.40R	Jul.1997	0.20R	+29 (a)	Hambros Bank

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Over interpolated yield.

Bond specialists named

Ten banks will become super primary dealers on the Italian bond market from July 1, Reuter reports from Milan.

Banca Commerciale Italiana, Banca di Roma, BankAmerica Corp's Bank of America, Caboto, Cassa di Risparmio di Torino, Credito Italiano, Istituto Bancario San Paolo, Monte dei Paschi di Siena, J.P. Morgan and Sigeco will all become "bond specialists", according to the Bank of Italy.

The banks will be able to underwrite auctions and enjoy special rights to subscribe to paper.

The central bank said the new bond specialists must have net assets of at least L75bn ($47.4m) from March next year. The list of super primaries will be reviewed annually. Primary and super primary dealers will now have to inform the Bank of Italy every month of their auction activities, including those for non-resident clients.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		9.000	09/04	95.1900	+0.070	8.75	8.84	8.75
Belgium		7.250	04/04	94.3600	+1.050	8.10	7.97	7.68
Canada *		6.500	06/04	81.4500	−0.250	9.42	9.06	8.48
Denmark		7.000	12/04	90.3000	+0.500	8.42	8.09	7.69
France	BTAN	8.000	05/98	103.1250	+0.880	7.03	6.81	6.38
	OAT	5.500	04/04	85.5900	+1.850	7.63	7.55	7.13
Germany Treuhand		8.750	05/04	96.8700	+0.880	7.20	7.12	6.91
Italy		8.500	01/04	88.8000	+2.300	10.47†	10.27	9.46
Japan	No 119	4.800	06/99	103.9880	+0.170	3.86	3.53	3.06
	No 164	4.100	12/03	97.9260	+0.590	4.41	4.20	3.73
Netherlands		5.750	01/04	90.6800	+1.500	7.12	7.18	6.93
Spain		10.500	10/03	87.7000	+0.580	10.88	10.32	9.62
UK Gilts		6.000	08/99	90-17	+26/32	8.31	8.09	7.79
		8.750	11/04	87-14	+52/32	8.59	8.50	8.27
		9.000	10/08	103-00	+57/32	8.63	8.54	8.36
US Treasury *		7.250	05/04	100-23	+13/32	7.15	7.01	7.19
		6.250	08/23	85-29	+23/32	7.44	7.32	7.44
ECU (French Govt)		6.000	04/04	85.6500	+0.940	8.16	7.94	7.56

London closing, *New York mid-day. Yields: Local market standard.
1 Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Lunchtime — Treasury Bills and Bond Yields

		One month	3.74	Two year	6.02
Prime rate	7¼	Two month	4.10	Three year	6.29
Broker loan rate	5½	Three month	4.28	Five year	6.75
Fed.funds	4 5/16	Six month	4.77	10-year	7.15
Fed.funds at intervention	-	One year	5.25	30-year	7.44

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	112.44	113.44	+1.14	113.64	112.38	273,945	133,208
Dec	111.66	112.52	+1.12	112.42	111.48	674	10,758
Mar	110.66	111.72	+1.12	111.00	110.66	4	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jul	Calls Sep	Calls Dec	Puts Jul	Puts Sep	Puts Dec
112	1.77	-	-	0.43	1.75	3.10
113	1.10	2.50	-	0.73	2.15	-
114	0.64	2.06	2.04	1.24	2.53	-
115	0.30	1.52	-	-	3.05	-
116	0.09	1.12	1.20	-	-	4.73

Est. vol. total, Calls 34,557 Puts 41,800 . Previous day's open int., Calls 330,040 Puts 380,461.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	90.22	91.00	+1.54	92.35	90.20	193532	160494
Dec	90.00	91.17	+1.50	90.50	90.00	2458	2397

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
9150	0.56	1.41	1.75	1.88	0.15	1.01	1.35	2.19
9200	0.30	1.14	1.48	1.63	0.40	1.24	1.58	2.46
9250	0.14	0.90	1.23	1.41	0.74	1.50	1.83	2.74

Est. vol. total, Calls 43890 Puts 18181. Previous day's open int., Calls 225551 Puts 229462

■ NOTIONAL MEDIUM TERM GERMAN GOVT. BOND (BOBL)(LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep		97.38	+0.81			0	75

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	101.81	103.85	+2.10	104.46	101.81	58441	64370
Dec		102.80	+2.10			0	100

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Sep	Calls Dec	Puts Sep	Puts Dec
10350	2.56	3.30	2.21	4.00
10400	2.29	3.08	2.44	4.28
10450	2.04	2.87	2.69	4.57

Est. vol. total, Calls 2584 Puts 2133. Previous day's open int., Calls 25957 Puts 22132

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	87.25	88.54	+0.84	88.64	87.25	93,182	93,643
Dec	87.55	88.63	-3.00	87.55	86.63	2	3

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	100-00	101-01	+1-19	101-00	99-29	626	9095
Sep	98-18	99-25	+1-18	100-08	98-12	55705	122219
Dec		98-25	+1-18			0	67

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Sep	Calls Dec	Puts Sep	Puts Dec
99	2-48	3-33	1-62	3-47
100	2-13	3-06	2-27	4-19
101	1-48	2-43	2-62	4-57

Est. vol. total, Calls 4075 Puts 1581. Previous day's open int., Calls 58479 Puts 43094

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	81.30	82.08	+1.00	82.10	81.30	1,064	6,301
Dec	-	81.64	+1.40	-	-	-	-

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	102-14	102-27	+0-14	102-30	102-13	490,430	366,574
Dec	101-23	102-02	+0-12	102-07	101-22	1,979	37,823
Mar	101-16	101-14	+0-17	101-18	101-14	46	3,045

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Sep	108.72			109.00	108.62	2539	0

* LIFFE contracts traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed Jun 22	Day's change %	Tue Jun 21	Accrued interest	xd adj. ytd		Low coupon yield Jun 22	Jun 21	Yr. ago	Medium coupon yield Jun 22	Jun 21	Yr. ago	High coupon yield Jun 22	Jun 21	Yr. ago
1 Up to 5 years (24)	120.48	+0.06	120.41	1.49	5.77	5 yrs	8.52	8.54	7.03	8.66	8.68	7.21	8.79	8.81	7.39
2 5-15 years (22)	137.77	+0.06	137.69	1.94	8.42	15 yrs	8.68	8.67	8.02	8.83	8.83	8.13	9.12	9.12	8.39
3 Over 15 years (9)	154.28	−0.07	154.39	2.66	5.41	20 yrs	8.61	8.60	8.16	8.83	8.83	8.24	8.92	8.91	8.44
4 Irredeemables (6)	173.55	−0.04	173.61	1.86	9.36	Irred.†	8.71	8.71	8.34						
5 All stocks (61)	135.94	+0.04	135.89	1.81	6.09										

Index-linked							Inflation 5% Jun 22	Jun 21	Yr. ago	Inflation 10% Jun 22	Jun 21	Yr. ago
6 Up to 5 years (2)	185.87	+0.25	185.42	1.12	2.53	Up to 5 yrs	3.81	3.90	2.99	2.75	2.83	2.21
7 Over 5 years (11)	170.02	+0.53	169.12	0.81	2.65	Over 5 yrs	3.95	3.99	3.54	3.75	3.79	3.35
8 All stocks (13)	170.79	+0.50	169.94	0.86	2.63							

Debentures and Loans						5 year yield Jun 22	Jun 21	Yr. ago	15 year yield Jun 22	Jun 21	Yr. ago	25 year yield Jun 22	Jun 21	Yr. ago
9 Debs & Loans (76)	126.01	+0.69	125.14	2.06	5.55	9.85	9.90	8.74	9.77	9.87	8.11	9.69	9.76	9.27

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	June 22	June 21	June 20	June 17	June 16	Yr ago	High*	Low*
Govt. Secs. (UK)	91.95	90.99	91.14	91.79	91.60	96.63	107.04	90.98
Fixed Interest	107.33	107.70	108.31	108.37	108.73	113.99	133.87	107.33

* for 1994. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94) , low 50.53 (3/1/75) . Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	June 21	June 20	June 17	June 16	June 15
Gilt Edged bargains	92.9	98.7	93.1	98.5	102.9
5-day average	96.8	100.6	101.9	101.8	105.5

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on June 22

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	91¾	92⅛	-⅛	7.82
Alberta Province 7⅝ 98	1000	101½	101⅞	-⅛	7.20
Austria 8½ 95	400	105½	105¾		7.25
[illegible]					
United Kingdom 7¼ 97	5500	101⅞	102⅛	+⅛	6.47
Volkswagen Intl Fin 7 03	1000	95⅝	96	+⅛	7.69
World Bank 0 15	2000	20¼	20⅝	-⅛	7.71
World Bank 5⅜ 03	3000	90⅛	90½	+⅞	7.32
[illegible]					
Abbey Natl Treasury 8 03 £	1000	91	91⅜	+⅜	9.55
Alliance Leics 11⅛ 97 £	195	108	108⅜	+½	8.13
British Land 8⅞ 23 £	150	86½	87	+⅜	10.61
Denmark 6¾ 98 £	800	94⅛	94⅜	+⅛	8.47
[illegible]					

UK GILTS PRICES

[illegible]

Speedy input from MTM purchase and good start to current year

BTP jumps 48% to £30.3m

By David Wighton

BTP, the speciality chemicals group which paid £106.7m for most of MTM's assets a year ago, beat City expectations with a 48 per cent jump in annual pre-tax profits, from £20.5m to £30.3m.

Earnings per share of 15.8p (12.7p) topped the previous record of 15.4p set in 1991.

Mr Frank Buckley, chairman, described the figures for the 12 months to March 31 as "not a bad performance" considering that most of the group's markets were in recession for a large part of the year. "The results from the MTM acquisition have come through more quickly than the market anticipated."

The shares rose 8½p to 309½p, helped by Mr Buckley's comments on trading: "There has been an encouraging start to the current year and there are positive signs that the recessionary conditions experienced in a number of our markets are now behind us."

The MTM assets contributed profits of £7.76m in nine months on sales of £56.8m out of total group turnover up £81m at £289.8m.

Trevor Humphries

Frank Buckley (left) with Steve Hannam, managing director

US operations had performed "very much better than expected". BTP introduced some of its biocides, leather and textiles chemicals into the MTM plants in the US, replacing UK imports which attract duty of more than 16 per cent.

US sales were also boosted by BTP's new industrial biocide in the last quarter. Annual growth in the global industrial biocide market is about 15 per cent, largely due to environmental pressures.

Profits from biocides and fine chemicals jumped to £12m (£4.84m), including £5.35m from the MTM assets. Sales more than doubled to £81.1m.

Performance chemicals, which includes tanning products, contributed £8.4m (£5.79m). The mainly UK-based industrial division turned in £6.63m (£4.21m) but adhesives and textile coatings slipped to £5.66m (£6.49m).

A 6.55p final dividend gives a 10p (9.3p) total, covered 1.6 times. Mr Buckley said the long-term aim was for dividends to be twice covered by earnings.

● COMMENT

Shareholders who supported last year's rights issue at 185p have been well rewarded for their faith. The MTM deal has paid off as predicted, giving BTP under-used capacity almost tailor-made for its needs. The full benefits are yet to come and combined with strong growth in areas such as industrial biocides and recovery in other markets BTP looks well-placed for the next couple of years. Assuming profits of about £39m this year, the shares are trading on 16 times forward earnings. Not expensive for the sector and there is a yield of 4 per cent.

Shanks & McEwan cuts dividend

By Peggy Hollinger

Shanks & McEwan, the waste management company, yesterday cut its dividend by 43 per cent and warned that uncertainty over government plans for bans on imported hazardous waste could lead to further disappointment in its Rechem business.

Mr Gordon Waddell, chairman, was announcing the group's plunge into the red with pre-tax losses of £6m (£10.2m profits) for the year to March 26. The swing into loss was the result of a £20m exceptional charge, which was flagged in a letter to shareholders in March, for losses on construction contracts and rationalisation.

Sales were down by 9 per cent to £120m, largely due to declines in the construction division and Rechem, the hazardous waste business.

Mr Waddell said Rechem's results had been disappointing, with lower waste tonnages and technical problems in the plants. This division would continue to be plagued by uncertainty until it became clear whether the government would ban imports of hazardous waste.

The UK incineration industry faces a difficult period over the next few years. Currently the government can ban hazardous waste imports, on which the group increasingly relies for revenue, but regulations to stop the dumping of treated hazardous waste into landfill sites are not expected for some time.

The dumping ban is widely expected to prompt a surge in demand for incineration.

Mr Waddell welcomed a recent government comment that incineration of imported waste could continue in limited quantities for up to three years. This was not enough, however. "Until we get some clarity, we are in serious trouble," he said.

To reflect this uncertainty, the final dividend is cut from 3.44p to 1p, for a total of 3.24p (5.68p). Losses per share were 5p against earnings of 4.1p last time.

The other businesses were doing well, Mr Waddell said. The solid waste division had pushed through price increases of up to 15 per cent in the south of England without any reduction in volume.

● COMMENT

Mr Waddell's blunt warning on the regulatory risks surrounding the high margin hazardous waste business overshadows a further problem – volumes are falling as well. While this may be offset by rationalisation and an improved performance from landfill and construction, the shares will almost certainly reflect the above difficulties. Forecasts are equally uncertain, ranging from £13.9m to £19m for this year. A prospective multiple of 12.5 on the most optimistic forecast might just attract high risk/high reward investors.

Eurotunnel take-up may be 'adequate'

By Simon Davies

The 3pm deadline for Eurotunnel's £858m rights issue passed yesterday with the shares still weak, but underwriters expressing confidence in the likely level of take-up.

Figures for the UK-listed portion of the issue, representing 25 per cent of Eurotunnel shares, will be released today. Analysts suggest that between 10 and 20 per cent of the UK shares may not be taken up.

Shareholders were offered new units on a 3-for-5 basis at 265p, which compared with the price of 275p at 3pm. The shares rose at the end of trading and closed at 279p. Having maintained a 10p premium, underwriters expect the response to be "adequate".

The more significant figure, acceptances from the 75 per cent of bearer shares traded (and primarily owned) in France, will not emerge until the end of next week, but the figures should be better.

One underwriter expressed confidence in the heavy trading in the nil paid bearer shares, since buyers would be almost certain to take up rights shares. Under the French system, investors who take no action lose their rights.

For Eurotunnel itself, the take-up makes little difference. It has raised its money and is adamant this is the last rights issue. Its only concern is that its warrants are converted.

Next year the company is anticipating revenues of £198m from warrant conversions. Following the decline in its share price, the shares are at least 10 per cent below the likely adjusted conversion price for the 1993 warrants (the largest tranche), and conversion cannot be automatically assumed.

This underlines the still precarious nature of Eurotunnel's finances, until it can demonstrate real traffic flows at least in line with projections.

First Leisure shares fall despite advance to £14m

By Michael Skapinker, Leisure Industries Correspondent

First Leisure yesterday announced interim profits up 16 per cent to £14.1m pre-tax, but warned that there was still no sign of a substantial upturn in consumer spending.

Mr John Conlan, chief executive of the discotheques, bowling and tourist attractions group, said consumers did appear to be going out more and spending more.

He added that market conditions were more encouraging than they had been for some time, but he said: "What we haven't seen is a boom around the corner. We shouldn't overanticipate the speed and scale of the recovery."

The City reacted badly to the announcement, marking First Leisure's shares down 19p to 289p. Analysts said this was more of a comment on the prospects for leisure spending generally than on First Leisure, which is seen as a well-managed group.

Turnover in the six months to May 1 rose 21 per cent to £62.9m. Earnings per share were up 7 per cent from 5.74p to 6.15p. The interim dividend is raised to 2.12p (2p).

Profits from tourist resorts fell 19 per cent to £1.3m, resulting from an increased depreciation charge and accelerated pre-season marketing costs. The group expects to benefit, however, from the publicity surrounding the centenary of the Blackpool Tower.

Profits from the sports division, which includes bowling, a marina and a health club, dipped 13 per cent to £6.6m. The fall resulted from bowling, where price increases in 1992 ran into consumer resistance. Mr Conlan said the group was in the process of introducing a new pricing policy with the aim of enticing bowlers back.

The discotheques division saw profits increase by 13 per cent to £8.5m. Spending per head was up 2 per cent.

● COMMENT

Reservations about First Leisure reflect doubts about the nature of post-recession spending throughout the economy. Few know whether consumers will resume their free-spending habits of the late 1980s, even when the good times have fully returned. Early evidence from First Leisure is that leisure consumers are not about to abandon their caution. A good summer in Blackpool might restore enthusiasm for the group. That partly depends on the vagaries of the British summer. Expected full-year pre-tax profits are £38.5m, with earnings of 17p. The prospective multiple of 17 fairly reflects the balance between competent management and an uncertain economic future.

Reduced deficit at ERF

By John Griffiths

ERF (Holdings), the truck maker, returned to profitability in the second half of last year for the first time since the UK truck market collapsed into recession in 1990.

However, it was not sufficient to offset the first-half loss and for the full year to April 2 there were pre-tax losses of £26,000, compared with £4.12m.

Mr Peter Foden, chairman, said ERF had begun recruiting more workers to allow a 40 per cent rise in output rates over the next three months.

The increase is mainly to cater for rising demand in the UK, where the truck market is firmly into recovery after its steepest decline since the second world war. Output is to rise from 10 to 11 trucks a day to 15, with the workforce increasing by nearly 100 to 840.

Prospects for continental markets were likely to remain bleak until next year, said Mr Foden.

However, ERF expects to receive a boost from tha changed political situation in South Africa, where it has an assembly plant. ERF is predicting a rise in demand there of 50 per cent over the next 12 to 18 months.

The Cheshire-based company, the UK's last remaining publicly quoted truck maker, made a profit of £453,000, after interest payments, in the second half.

For the full year, losses per share were cut to 4.98p (46.25p) while the proposed final dividend is held at 2p.

Gearing was reduced to 44.7 per cent at the year end after peaking at nearly 60 per cent half-way. The latter figure was inflated, however, by the £2.5m cost of launching new trucks designed for continental Europe and the setting up of a network to sell them. These costs were treated as an exceptional item last time. But the venture could hardly have been worse timed, with continental truck markets declining sharply last year. ERF sold only about 50 trucks on the Continent but in the next few years hopes to capture 1 to 2 per cent of the region's heavy truck market, representing up to 1,000 trucks a year.

Turnover rose by 34 per cent to £149.5m (£111.7m) with unit sales 20 per cent up at 2,339 (1,942). There was exceptionally high pressure on profit margins as continental truck makers discounted heavily, said Mr Foden.

Allen expands as profits double

By Caroline Southey

Allen, the construction and property development group, yesterday announced the acquisition of DJ Ryan & Sons, a cable laying, civil engineering and building contracting business, for about £6.9m, to be financed by the issue of 4.34m shares.

The Wigan-based group also reported a doubling of pre-tax profits, from £1.51m to £3.05m, on turnover up 23 per cent, from £51m to £62.7m, in the year to April 3.

The group ended a two-year dividend freeze, recommending an increased final of 3.6p for a total of 5.25p (5p). Earnings per share rose from 5.05p to 8.67p.

Gearing at the year-end was 16.7 per cent, against 38.8 per cent last time.

Mr Donald Greenhalgh, chairman, said that house completions, which had risen from 208 to 305 over the period, were expected to rise by some 25 to 30 per cent in the current year.

The acquisition issue will represent 14 per cent of the enlarged share capital. Some 2.55m shares are to be placed at 150p apiece. Of the balance of 1.79m shares, Ryan has agreed to retain 1.2m for one year.

Ryan, based in Preston, Lancashire, reported pre-tax profits of £1.02m on sales of £34.8m in the year to March 31. At that date its net asset value was £3.6m.

Mr Greenhalgh said the acquisition would allow Allen to expand into a related market in the north-west.

Ryan has fixed-term contracts with British Gas, with which it has a 26-year relationship, as well as North West Water and Severn Trent to lay, replace and repair gas and water pipes.

The company recently won its first contract to lay cables in the UK for Nynex, the east coast US telecommunications group.

After completion of the acquisition by Allen, Ryan's building contracting and housebuilding divisions will be sold.

Redland floats Belgian arm

By David Blackwell

The Benelux brick interests of Redland, one of Britain's biggest building materials companies, have been floated on the Belgian bourse with a valuation of BFr8.2bn (£161m).

The flotation raised about BFr1.5bn, which will be used to pay off debt incurred in expanding the business.

Redland said that its beneficial interest in the company, which has been renamed Terca Brick Industries, had been reduced to 35 per cent.

The Benelux interests were known as Redland Koramic Bricks, jointly owned by Redland and Koramic, a privately owned Belgian industrial group.

Last April Redland Koramic merged with the brick interests of Van Biervliet, also a privately owned Belgian group, reducing Redland's interest to 42 per cent.

Terca will have annual turnover of £135m and produce more than 1bn facing bricks a year from 25 sites in the Netherlands, Belgium, France and Germany.

Standard Life diversifies into health insurance

Standard Life, the UK's largest mutual life insurer, is to diversify into health insurance with the purchase of Prime Health from Municipal Mutual, the local authority-owned insurance company, for an undisclosed amount, writes Alison Smith.

Prime Health policies cover some 250,000 people. Last year it had gross premium income of £54m making it the fifth largest health insurer in the UK.

The move is Standard Life's first venture outside life and pensions policies. Mr Scott Bell, managing director, said the acquisition would allow the group to move quickly ahead in the rapidly growing health insurance market.

Standard Life will lose an important element of its UK distribution next year, when Halifax Building Society ends its agreement to sell Standard Life policies and sets up its own life subsidiary.

Prime Health is the latest in a string of subsidiaries to have been sold off by MMI, which transferred most of its continuing local authority business to Zurich Insurance.

EFT £2.56m placing

EFT plans to raise about £2.56m net via a placing and open offer of 5.48m new ordinary shares at 49p each.

Tha Glasgow-based asset finance group also said that its principal bankers had agreed to increase available borrowing facilities to £56.8m – up £13.5m from the facilities available at December 31 1993.

The new shares are being conditionally placed with institutions, subject to a clawback to qualifying shareholders on a 1-for-6 basis.

EFT said that revenues for the first five months of the current financial year were more than 15 per cent ahead. The directors forecast the interim dividend would be 0.525p and the final 1.225p, making a total of 1.75p (1.5p).

Emap bids for Trans World

By David Wighton

Emap yesterday launched its expected 181p a share hostile bid for Trans World Communications, the local radio group where it owns or has agreement to buy 51.7 per cent of the shares.

The bid, which values Trans World at £70.8m, follows the agreement by Mr Owen Oyston to sell his 22 per cent stake to Emap at the offer price.

Mr Robin Miller, Emap's chief executive, said the final cash offer represented a "generous" price for Trans World. It is pitched at 58 times last year's earnings and 5.3 times turnover, both higher than any previous deal in the sector.

However, earlier this week the Trans World board declined to recommend such an offer, arguing that the price was too low and that the bid could face legal problems.

This is because a full takeover would breach the legal limit on the number and size of commercial radio licences that can be held by one company.

However, Emap plans to sell two of its licences to a joint venture with merchant bank Schroders, which tha Radio Authority has said would comply with relevant legislation.

The authority has reconfirmed its position following an announcement by the Guardian Media Group, which owns 20 per cent of Trans World, that it intends to ask for a judicial review of the decision.

Mr Miller said:"Wa have no idea whether they will get leave to proceed or what the timetable would be, but meanwhile the offer goes ahead."

Emap said the acquisition would ehance its earnings per share in the first full financial year of ownership.

Trans World shares added 2p to 175p.

Wagon slips less than expected to £15.6m

By Paul Cheeseright, Midlands Correspondent

Pre-tax profits at Wagon Industrial Holdings last year declined less than the materials handling, engineering and automotive products group had predicted as productivity rose and trading conditions improved in the UK and continental Europe.

In the 12 months to March 31, pre-tax profits were £15.6m, against £18.1m. The gronp last June warned that its results would be similar to those of the previous year before meeting restructuring costs of £3m at Forkhardt, its German power chuck subsidiary.

Although earnings per share dipped from 29p to 19.58p, the dividend is slightly increased and only just covered; the final is 11.5p, making a total of 17.825p (17.308p).

Wagon would like to have the dividend twice covered by the end of the next financial year. That implies an increase in profits over two years of 33 per cent.

There has been a strong start to this year, reported Mr John Hudson, chief executive. Trading conditions started to improve last year. "The important thing was an acceleration of the improvement towards the end of the year, which is exactly the opposite of the previous year," he said.

Turnover was £279.9m, of which £9.07m came from acquisitions, against £247.6m. But operating profits, largely because of Forkhardt, fell from £16.5m to £14.7m.

In the automotive division, where recently Wagon has been concentrating ite expansion, operating profits fell while turnover increased. This reflected a tailing-off of profits in France. But, said Mr Hudson, "we see the automotive division being our strongest division this year".

● **COMMENT**

Wagon rode the UK recession with aplomb. Everything it might have done it did: kept cash in the bank, reorganised management, raised productivity, made acquisitions to build up market position. It was Europe which made it look more ordinary: takeover of Polypal in Belgium only to see the markets tumble, capacity at Forkhardt far too high for reduced demand. Last year it grasped the European nettles. Manufacturing sites for materials handling equipment have been concentrated and Forkhardt is back in profit, albeit small. With its European markets starting to bounce back and demand in the UK rising, recovery should be swift enough to justify the company broker's prediction of £22m pre-tax and earnings per share of 30.8p for the current year. On a price, up 3p yesterday, of 479p, that would put the shares on a modest prospective multiple of 15.5.

MEPC to buy Belfast shopping centre

By Vanessa Houlder, Property Correspondent

MEPC, the UK's second largest property company, has agreed to buy the Castlecourt shopping centre in Belfast from John Laing, the construction and housebuilding group, for initial and deferred payments expected to exceed £80.5m.

The deal is in line with MEPC's strategy of increasing the retail component of its portfolio. John Laing is selling the property because it does not wish to be a long term holder of developed investment properties.

John Laing intends to use the proceeds from the disposal to expand existing activities, particularly projects in the Pacific Rim, and in private infrastructure in the UK.

MEPC has agreed to pay an initial sum of not less than £72.5m next month, and a further minimum amount of £1.65m next February. There will be additional payments up to 1998, based on the capitalised value of rents achieved on further lettings and the outcome of rent reviews. The deal is subject to shareholders' approval.

The 320,000 sq ft shopping centre opened in April 1990. Rental income in 1993 was £5.2m. It has been valued on an open market basis at £80.5m.

The net book value of Castlecourt at the end of last year was £60m. The disposal will generate an extra £7.1m of pre-tax profits for Laing's full year and will realise net cash of £30m, after the deduction of costs and repayment of £40m of bank borrowings.

Laing has also agreed to sell Churchgate in Peterborough for £2.5m, payable on completion and a minimum further consideration of £2.5m, payable within five years.

Laing said trading conditions remained difficult in its UK construction activities and margins remained under pressure. However, work intake compared favourably with this time last year.

Company will realise £52m net profit from sale of entire holding

Royal Bank explains 3i decision

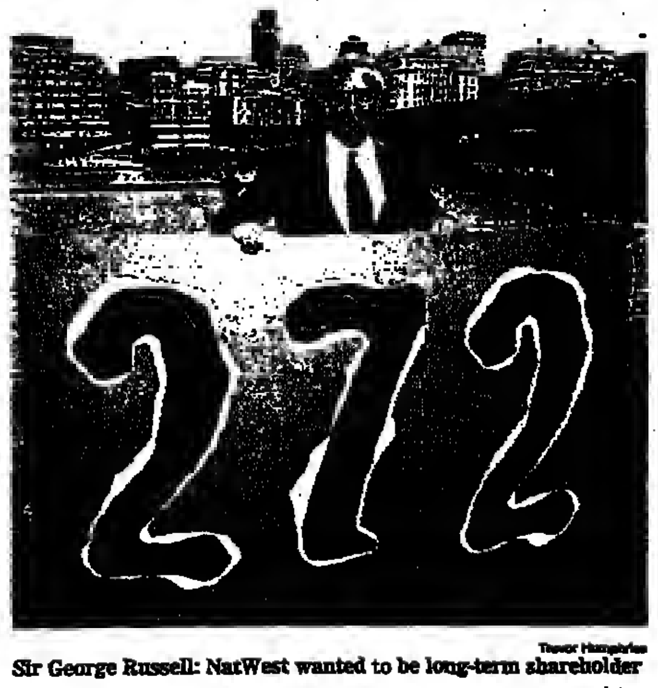
By John Gapper, Banking Editor

Mr George Mathewson, Royal Bank of Scotland's chief executive, yesterday explained the bank's decision to dispose of all its 7.3 per cent stake in 3i, the investment trust company which was floated yesterday by the high street banks.

Royal Bank, one of seven banks which owned 3i jointly with the Bank of England before the offer of £711m of its equity yesterday, was the only bank to dispose of its entire stake. In contrast, Bank of Scotland did not sell any of its existing stake.

National Westminster Bank will retain the highest stake of the banks, with its stake falling to 17.94 per cent compared with the previous 22.9 per cent. All the stakes were diluted by a £288m rights issue element of the flotation.

Sir George Russell, 3i chairman, said that NatWest wanted to be a "major and long-term shareholder, which we certainly welcome". The bank said that it viewed 3i as a good company which it wanted to retain as a long-term investment.



Trevor Humphries

Sir George Russell: NatWest wanted to be long-term shareholder

Mr Mathewson said that Royal Bank had sold its stake in a placement because the rights dilution of its stake would have prevented it from continuing to equity account the holding, and so include rises in 3i's net assets in profits.

He said that after deducting the already accounted rises in 3i's net assets, Royal Bank would be left with a net profit of £52m from its sale. This would be taken as an exceptional item in the second half of its financial year.

Mr Mathewson said that Royal Bank had decided to sell its stake immediately rather than "leak it out in little bits", because although 3i was a good company, "we are not in the business of outguessing the equity market".

He emphasised thet the raising of extra capital had no strategic implications for the bank, which indicated its interest in buying a building society. "This has no broader tactical implications whatsoever," he said.

The banks have agreed not to sell any further part of their remaining stakes within a year without the agreement of Baring Brothers, the merchant bank sponsoring the issue. Any bank selling more equity will consult the others first.

Mr Hugh Young, general manager of Bank of Scotland, said the bank's stake had fallen to 2.47 per cent from 3.02 per cent because of dilution. It had never equity accounted its stake, taking only 3i dividends into profits.

Aer Lingus lays off 850 staff as dispute continues

By Tim Coone in Dublin

Team Aer Lingus, the aircraft maintenance division of Aer Lingus, the Irish state airline, yesterday laid off more than 40 per cent of its workforce, amounting to 850 of its 2,000 employees, as trade unions warned that the dispute over pay and staffing cuts could spread through the whole airline.

The division has been losing I£1m (£980,000) a month and currently has no heavy maintenance contracts as airlines have transferred business elsewhere over concerns that the simmering dispute would leave their aircraft stranded in Aer Lingus maintenance hangars.

Earlier this week craft unions rejected a rescue package for the subsidiary recommended by the Labour Relations Court, arguing that their own proposals to return the company to commercial viability had not been considered by the management or the LRC.

The LRC recommended a pay freeze until July 1996, rather than pay cuts sought by the management.

Backbencbers of the Labour party, which forms part of the coalition government, yesterday criticised Aer Lingus for its handling of the dispute. The government, however, has backed the management and recommended acceptance of the LRC proposals. Senior pobticians are to question Aer Lingus today on the dispute in a special Dail sub-committee hearing convened at the request of the unions.

Mr Dennis Smith, chief negotiator for the craft unions, said that strike action was not planned for the time being, but Siptu, one of the trade unions involved in the dispute, said yesterday that if non-union labour was taken on while staff were laid off "there certainly will be a reaction".

The government and Aer Lingus are meanwhile facing pressure from another direction. Aeroflot, the Russian airline, is to begin non-stop flights from Russia to the US this summer as new long-range aircraft come into service, bypassing the refuelling stop at Shannon in the west of Ireland.

It has offered to continne the Shannon stopover if passengers from other CIS airlines can transfer to Aeroflot there. But the government and Aer Lingus are opposed to this as it is seen as a threat to Aer Lingus' transatlantic business.

New stores and organic growth boost Carpetright to £14m

By Peggy Hollinger

Carpetright, Sir Philip Harris's carpet retail chain, yesterday announced a 79 per cent jump in profits for its first full year as a public company.

The pre-tax return rose from £7.8m to £14m for the year to April 30 on sales ahead 40 per cent to £110.4m (£78.6m).

Sir Philip, chairman and chief executive, said the profits performance was satisfactory against a background of stable prices.

The improvement was due both to the addition of new stores and organic growth, with like-for-like sales ahead 16 per cent in the year. Sir Philip implied that the rate of sales growth had slowed in the first few weeks of the current year. "We would be very happy if we get that again", he said.

The housing market remained flat and any substantial improvement in prices was not expected.

Sir Philip was confident, bowever, that Carpetright would generate substantial growth through net margin improvements and its increased share of the UK carpet market.

Since flotation in June operating margins had risen from 9.5 per cent to 12.2 per cent and market share had risen from 6 per cent to 9 per cent. Sir Philip said his ambition was for a 20 per cent share with 250 outlets.

Carpetright opened 31 new stores in the year, taking the total to 149. A further 26 stores are scheduled to open this year. The group ended the year with cash of £13.7m (£8m).

There is a final dividend of 4.3p, for a total of 7p. This compared with 1.23p, adjusted for the capitalisation issue. Earnings were 12p (6.25p).

● **COMMENT**

The impressive performance in the first year may be hard to sustain in the longer-term, given the glaring absence of any substantial recovery in the housing market. Yet Carpetright appears to be throwing off a significant amount of cash which should fund the aggressive expansion programme and give comfort on the thin dividend cover. Forecasts are for profits of £19m this year, for a prospective p/e of 15. This is not aggressively priced, but the share performance may be constrained by concerns over whether the company's strategy can be sustained.

King & Shaxson declines 17% to £2.6m

An initial £2.46m from Greig Middleton Holdings, the recently-acquired stockbroking firm, contributed the bulk of pre-tax profits of £2.6m at King & Shaxson Holdings for the year ended April 30.

The result, however, was 17 per cent lower than the previous year's restated £3.15m.

After-tax profits of the financial services group slipped 10 per cent to £1.7m, and earnings per share came to 9.8p (11p). A recommended final dividend of 5p makes an unchanged total of 9p.

Mr David Pearce, chairman, said the discount house had an unsatisfactory year with operating losses of £113,000 against an "exceptional" profit of £2.59m. Profits from money broking dropped from £971,000 to £781,000 while there was a £152,000 loss from fntnres management.

Sapphire option for Butte Mining

Butte Mining, the London-quoted company, has acquired an option on certain sapphire mining rights and interests in Montana and will explore a 500-acre property there in exchange for a significant minority interest in a new company, International Gem Corporation, being set up to exploit the prospect.

If full-scale production is merited, up to $2m (£1.3m) of equity funding will be needed and Butte shareholders will have the right to subscribe for shares in International Gem.

Hardys & Hansons rises by 10% to £3.66m

By Graham Deller

Hardys & Hansons, the Nottingham-based independent brewer, yesterday reported a 10 per cent increase in interim profits.

On turnover marginally ahead to £15.6m, trading profits advanced to £3.35m (£2.94m); after rednced net interest receivable of £292,000 (£338,000) the pre-tax line for the half year to April 1 amounted to £3.66m, up from £3.32m last time.

Mr Richard Hanson, chairman and managing director, attributed the "very satisfactory" improvement to the contribution from new or recently modernised houses.

The outcome was also aided, he added, by an early Easter with sales in the run-up to the holiday falling in the first half.

The interim dividend is raised 13 per cent, from 3p to 3.4p, payable from earnings of 9.827p per share, compared with 8.975p.

NEWS DIGEST

Amber achieves 35% rise

Helped by a profit of £717,000 on the sale of operations, Amber Industrial Holdings, the specialty chemicals company in which Cayzer Trust holds a 75 per cent stake, achieved a 35 per cent pre-tax advance from £3.07m to £4.14m in the year to end-March.

Turnover grew from £21m to £22.1m and earnings per share emerged at 67p (43.7p). An improved final dividend of 14p is proposed, raising the total to 20p (18.5p).

Directors said that cash balances had improved from £3.2m to £5.1m, reflecting in part the disposal of the Causeway Steel Products business.

Since the year-end Amber has acquired two small businesses – Proplastics and Newbury Aerosols – and further purchases are under consideration.

Capita to pay £10m for software supplier

Capita Group, a supplier of professional support services and owner of the UK's second largest bailiff services company, is to pay up to £10m for Sims Holdings, which specialises in software for educational institutions.

Up to £6m is payable on completion and a further £4m is payable under an earn-out.

There will be a placing of 2.6m new ordinary 2p shares at 173p apiece to raise £4.2m.

BOC makes R88m South Africa deal

BOC Group's African Oxygen subsidiary is to acquire the cylinder portion of Engen's liquefied petroleum gas business in South Africa, Botswana, Lesotho, Swaziland and Namibia.

The R88m (£15.8m) consideration is to be satisfied in cash.

Strong asset growth at Dartmoor Inv

Dartmoor Investment Trust reported a net asset value of 118.45p as at April 30, a rise of more than 49 per cent on the comparable figure of 79.33p.

The trust, which invests mainly in split capital funds and is managed by Exeter Asset Management, easily outperformed its benchmark, the FT-SE-A All-Share Index, which rose just 13.8 per cent during the same period.

Attributable profit for the 12 months to end-April dipped to £2.78m (£2.84m), for earnings of 11.57p (12.09p) per share.

Nevertheless, the total distribution for the year is maintained at 11.6p via a same-again final dividend of 3.9p.

Lucas in joint venture in China

Lucas Aerospace, part of Lucas Industries, has signed a joint venture agreement with Taikoo Aircraft Engineering Company of Xiamen, China.

The venture is to establish a repair and overhaul facility for engine and flight control systems, electrical power generation and other aerospace equipment. It will be 65 per cent owned by Lucas and 35 per cent by TAECO and total investment will be more than $10m (£6.5m).

Exceptionals push LPA to £88,000 loss

Exceptional losses on the disposal of its Acrokool drinking water fountain subsidiary pushed LPA Industries, the electrical accessory group, to a pre-tax loss of £88,000 for the half year to end-March against a profit of £18,000.

The £142,000 exceptional included a £39,000 loss on disposal and a £103,000 write off of goodwill. Turnover was £2.6m (£2.35m).

Earnings per share from continuing operations came out at 0.45p (0.31p) and there is a reduced interim dividend of 0.8p (1.65p).

Second Consolidated asset value ahead

Second Consolidated Trust had a net asset value per share of 111.2p at April 30, against 109.9p a year earlier and 109.2p at the October 31 year-end. Both comparatives have been adjusted for capital repayment.

Net attribntable revenne rose sharply to £1.12m (£233,000 for five months) equivalent to earnings of 3.28p (0.68p) per share.

The trust was incorporated in October 1992 and a final dividend of 2.1p was paid last year. A maiden interim of 1.5p is declared.

Finsbury Avenue debenture stock

Finsbury Avenue Estates said that FCS Currency Management had bought £17.4m of its 11 per cent first mortgage debenture stock 2014.

The two companies are subsidiaries of British Land.

The stock is not being cancelled and, accordingly, £40m remains outstanding, of which £17.4m is held by FCS.

Old Mutual South Africa raises £51m

Old Mutual, South Africa's largest life assurer and mutual fund manager, announced that 51m ordinary shares in Old Mutual South Africa Trust had been successfully placed with institutions, stockbrokers and intermediaries by Smith New Court at 100p.

Old Mutual South Africa Trust is the UK's first South African investment trust. It aims to provide capital growth from investment in medium to smaller-sized companies.

Up to 19m ordinary shares at 100p each will be available in the public offer which opens today. Warrants will be issued on a 1-for-5 basis. Tbe offer closes on July 1 and dealings are expected to start on July 8.

Leigh Interests makes £4m purchase

Leigh Interests, the environmental services company, is buying Bride (Church Lawford) for £4m, satisfied by the issue of 2.03m shares. The shares have been conditionally placed at 197p.

Capital Industries makes £2.9m buy

Capital Industries, the financial services and packaging materials group, has acquired a 4.2 acre freehold industrial site at Maidstone, Kent, for £2.9m cash. It will enable its finishing and label operations to be integrated on one site.

The consideration will be funded partly by a new term loan facility and partly from Capital's banking facilities.

Loss on disposal hits West Trust

West Trust, the specialist food manufacturing and distribution group, ran up a pre-tax loss of £1.42m in the year ended March 31, after making a £2.12m charge for the disposal of Ken Moore, its former Lycra making subsidiary. The loss compared with a £129,000 profit previously.

Losses per share were 5.3p (0.2p earnings), but this came out at earnings of 2.34p before the Ken Moore loss. The final dividend is 2.3p for an unchanged total of 2.5p.

Turnover increased from £8.84m to £13.21m.

FT-Actuaries World Index

At its last quarterly meeting, the FT-Actuaries World Index Policy Committee decided that Thailand and Brazil should be added to the World Indices with effect from October 1 1994, subject to satisfactory resolution of several outstanding technical issues.

Users of the World Indices are invited to contact the compilers (below) detailing any factors they would wish to be considered before the calculation of these new country indices.

Other stock markets that may comply fully with the Construction and Maintenance Rules of the World Index will be added as fast as practicable.

The Committee does not intend to change its policy regarding the inclusion of "emerging" markets in the daily calculation of the World Index for the time being, since it does not wisb to introduce a second, less demanding set of rules for countries which cannot meet current World Index criteria.

In response to recent changes in investment patterns, publication in the FT of the World Ex-South Africa index will cease at the same time that Brazil and Thailand are added to FT-AWI.

In addition, the North America index will be renamed Americas and will consist of the US, Canada, Mexico and Brazil. The Mexico index will then be based on the most up-to-date prices, rather than on prices taken one day in arrears as is currently the case.

A clarification of the wording of the guidelines falling within Section II of the Construction and Maintenance Rules has been proposed by the Committee with effect from October 1 1994, subject to confirmation at the next meeting:

"When a government is a holder of shares but either the shares are not listed or the government is constrained through requiring legislation before being able to sell them then a weighting factor will be applied."

Changes to the Construction and Maintenance Rules are announced after the quarterly meeting at whicb they are agreed, but will not be put into effect until after they have been confirmed at the following quarterly meeting, in order to allow for comment.

There are no quarterly changes to current FT-AWI constituents. A list of constituent changes to the FT-AWI Large Cap and FT-AWI Medium-Small Cap Indices as a result of the half-yearly rebalance will be available from NetWest Securities Limited and Goldman, Sachs & Co on July 5 1994. The changes will be effective July 15 1994.

Tha FT-Actuaries World Indices are jointly compiled by The Financial Times Limited, Goldman, Sachs & Co, and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries.

All enquiries should be made to Symon Bradford, NatWest Securities Limited, on 031-243-4258 or to Barbara Mueller, Goldman, Sachs & Co, on 0101-212-902-6777.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Allen	fin	3.6	July 29	3.35	5.25	5
Amber Industrial	fin	14	Aug 8	13	20	18.5
BTP	fin	6.55	Aug 19	6.05	10	9.3
Carpetright	fin	4.3	Sept 15	-	7	-
Dartmoor Inv Tst	fin	3.9	July 29	3.9	11.6	11.6
ERF	fin	2	Aug 17	2	2	2
First Leisure	int	2.12	Oct 31	2	-	6.53
Hardys & Hansons	int	3.4	Aug 3	3	-	8.5
King & Shaxson	fin	5	July 29	5	9	9
Second Consol	int	1.5	Aug 4	-	-	2.1‡
Shanks & McEwan	fin	1	Aug 15	3.44	3.24	5.88
Smith St Aubyn	fin	nil	-	3.7037	6.25	5.2963
Wagon Indl	fin	11.5†	Oct 3	11.175	17.825	17.308
West Trust	fin	2.3	Nov 1	2.5	2.5	2.5

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock. ‡For 11 months.

COMMODITIES AND AGRICULTURE

Buyers come to copper's rescue after early fall

By Kenneth Gooding, Mining Correspondent

The copper market burst into life again late yesterday after pausing for breath earlier this week. However, analysts warned that the copper price – and prices of other London Metal Exchange-traded metals – might be heading for a fall in the third quarter.

Copper for delivery in three months, which at one point yesterday dropped to $2,417 a tonne, closed on the London Metal Exchange at $2,451.50, up $18.25 a tonne from Tuesday's close.

Traders said that some Japanese buying stopped copper's price fall and later the Chinese also came in with "buy" orders.

Mr Nick Moore, analyst at Ord Minnett, said the market was still unsure whether there would be the usual summer lull in business. He added: "I suspect that there will be a lull and the onset of the third-quarter seasonal demand weakness will indeed witness lower metal prices in the coming quarter. These lower prices will, however, offer a period of consolidation as a prelude to a fresh acceleration [in copper's price] in the final quarter".

At GNI, analyst Mr Lawrence Eagles suggested that, if copper should begin to fall back, other metals would follow. The sell-off was likely to be most aggressive for those metals, such as zinc, which had the worst over-supply problems.

Mr Ted Arnold, metals specialist at Merrill Lynch, remained more bullish. Although he accepted that the copper market might be very volatile in coming weeks and he would not be surprised to see daily trading ranges of 3 to 5 cents a pound, he forecast that three-month copper would trade over the next two to three months between $2,250 and $2,550 a tonne ($1.02 to $1.16 a pound).

Italy to import more Algerian gas

By Robert Graham in Rome

Italy has signed a new gas deal with Algeria, committing Snam, the gas supply subsidiary of ENI, the Italian state oil concern, to buy 2bn cubic metres of liquefied natural gas a year from 1996 from Sonatrach, the Algerian state oil company.

Algeria already accounts for about 40 per cent of Italy's gas supplies. The latest contract will bring to 26bn cu m the annual imports as of 1996, when the second leg of the Tunis-Sicily Trans-Mediterranean pipeline becomes operational. Coming at a time of increasing political uncertainty in Algeria, the contract is seen as evidence of Italy's strategic choice of this North African supplier.

The LNGs will be transported from Skikda in Algeria to Panigaglia near La Spezia. By 1996 21.5bn cu m of gas a year will be contracted through Snam while an additional 4bn cu m is being bought directly by Enel, the Italian state electricity authority, but transported by Snam.

US official attacks Canadian wheat marketing

By Laurie Morse in Chicago

A top-ranking official of the US Department of Agriculture took aim at Canada's entire wheat marketing system in a speech made in Fargo, North Dakota on Tuesday, calling the Canadian Wheat Board's operations "monopolistic" and incompatible with the new free trade climate in North America.

The comments, made by Mr Eugene Moos, Undersecretary for International Affairs and Commodity Programmes at the US Department of Agriculture, may indicate that the US will push for an overhaul of Canada's entire grain marketing system, rather than just a short-term fix to a cross-border grain trade dispute, when US agriculture secretary Mr Mike Espy and top trade negotiator Mr Mickey Kantor meet with their Canadian counterparts in Chicago on Monday.

The Clinton administration, under pressure from congressmen from farm states bordering Canada, is threatening to impose emergency quotas on wheat imports from Canada, and Canada has promised to retaliate. The US claims Canada is unfairly marketing into US wheat-producing regions, although US flour millers and pasta processors contend that short supplies of high-quality US wheat have forced them to buy from Canada.

Mr Moos went beyond the domestic trade issues in his remarks on Tuesday, saying: "The predatory practices of the Canadian Wheat Board must end".

Although Canada does not directly subsidise grain exports in the way that the US and the European Union do, Mr Moos said the Wheat Board's pricing policies allowed it to undercut subsidising competitors.

He said he had asked to be allowed use the US grain export subsidy program, known as EEP, against trade competitors other than the EU, warning: "We in the USDA intend to use all of the tools at our disposal to encourage other competitors to trade fairly".

Although national grain marketing boards like those in Canada and Australia were not addressed in the recently-concluded Uruguay round of the General Agreement on Tariffs and Trade, they have recently become the focus of unfair trade practice complaints. Mr Winston Wilson, president of the largest US wheat export trade group, said: "I think it boils down to the fact we are now involved with two free trade agreements with Canada, and we have two different systems of grain marketing that are not very compatible".

India clears way for private forestry boost

Kunal Bose on moves to allow wood-based industries to join in the replanting effort

India, which is far from achieving its target of bringing at least one-third of the total land area under tree cover has finally seen the merit of allowing the wood based industries to start forestry plantation in degraded forest land.

Captive plantation by industries calls, however, for major amendments to the national forest policy of 1988.

Mr Kamal Nath, minister of environment and forests, had given manufacturers of paper, plywood and viscose fibre to understand that the government will allow them to take large tracts of degraded forest on leases of at least 30 years to grow an ideal mix of long and short maturing trees. The lessees will also have the right to grow cash crops in among the trees.

Of India's total waste land of nearly 160m hectares, the share of degraded forest is about 40m ha with a crown density of less than 20 per cent. The National Wastelands Development Board was given a target to bring 5m hectares under tree plantation every year. But the resources at its command have not allowed the board to plant on more than 2m hectares a year.

According to Mr SP Goenka, president of the Federation of Indian Plywood Industry, the induction of the private sector into forestry plantation would not only "ease the pressure on the government, which is short of funds, but it would also create millions of job opportunities in the Indian villages".

The forestry plantation industry, a totally new concept in India, will create jobs for three workers a hectare. So the policy initiative would appear to have the potential to create 120m jobs.

As the forest cover in India is barely 12 per cent and forestry productivity is only one-fifth that of Europe, the government has imposed severe restrictions on the procurement of wood and bamboo by industries. It is, however, the demand for fuel wood by the poor villagers and illegal felling of trees to make room for food production that have actually played havoc with Indian forests.

The government has sought to give relief to the wood-based industries by allowing them to import timber, pulp and waste paper. Some paper and plywood manufacturers have gone in for social and farm forestry by establishing direct contact with the farmers, as allowed by the 1988 forest policy. According to the Indian Paper Mills Association, "the social and farm forestry cannot be a dependable source of raw material for the industry since the farmers are free to sell the trees to anybody".

Mr Goenka says the success of private sector participation in forestry plantation will call for an "attitudinal change of the official agencies at the federal and state level. The government financial institutions should be ready to provide adequate funds by accepting mortgage of trees".

Tree plantation has a seven year cycle. If the private forestry plantation work is flagged off soon, then the Indian wood based industries, which have not seen much growth in recent years, will have the confidence to plan for new capacity. India could also emerge as an important exporter of wood and wood based products within ten years, says Mr Goenka.

UK boffins breed a better lupin

By Deborah Hargreaves

Lupins, the early summer stalwarts of most British gardens, could soon proliferate over much of the country'e farmland, and contribute to reducing the trade deficit.

Government research has developed a new strain of white lupin that is suitable for growing in Britain on a commercial basis and can be made into animal feed. The white flowers could be grown by farmers for sale to cattle feedmakers in two to three years.

The new variety grows seed pods that are rich in protein – unlike the poisonous seeds of their country garden counterparts. The seeds, which contain almost 40 to 50 per cent edible protein and 10 to 12 per cent oil, can be crushed to make animal feedstuff.

Mnch of Britain's animal feed is now made from soyabeans, which are imported from the US at an annual cost of around £350m. Some 30,000 tonnes of lupins are imported from Australia as an additive to livestock feeds.

Research at Cranfield University has shown that the new strain of lupin would be suitable for growing on 43 per cent of farmland in England and Wales. "In the past we had a go at growing the old varieties of lupin, but they couldn't stand the cold and frost," says Mr John Hollis at the university's Soil Survey and Land Research Centre.

The new hardier variety can be planted in September to produce a flower the following summer. The plants have also been genetically manipulated so that the flowers grow closer to the top of the stem and are exposed to the maximum amount of sunlight, with the result that they ripen more quickly.

The plants are partial to acid, or poorer soils, but will not grow on lime-rich soil. "Providing you don't have a natural limey soil and you hit the crop planting window right at the beginning of September, you can expect yields of 4 to 5 tonnes an acre," says Mr Hollis.

Lupins are grown commercially in Australia and parts of South America. In Chile the seeds are fried up and eaten as a snack.

Computer model could cut nitrogen applications

By Deborah Hargreaves

Predictions of the nitrogen needs of crops on different fields at varying times of year can be made available to farmers on a computer model developed by Horticulture Research International, the company said this week.

It claimed the computer programme would enable farmers to target their nitrogen applications more accurately so that crops grew well. It should help eliminate the environmental damage and waste of money associated with using too much nitrogen fertiliser.

The company said the computer model, which had been tested over 3,000 hectares, offered nitrogen predictions for a wide range of crops. The model comes as farmers face mounting pressure from environmentalists about cutting their use of nitrogen fertilisers.

MARKET REPORT

Coffee and cocoa prices fall sharply

COFFEE futures fell sharply at the London Commodity Exchange yesterday afternoon, emulating a drop in New York.

The September delivery position finished $66 lower at $2,278 a tonne, slightly off the lows, mainly on profit-taking, with little news to drive the market one way or the other.

"I don't think anyone has a genuine idea of where the price is going," one trader commented.

The LCE COCOA market, which was also influenced by the trend in New York, had a lacklustre day, nudging below the opening lows and finishing £15 down at £1,000 a tonne, its low of the day, in the September position.

A trader said the producer selling seemed to be largely "on hold", with much of the activity dominated by speculators following general commodity market trends.

At the London Bullion Market GOLD finished unchanged after fixing at a 5½-month high in the morning in response to New York's overnight rise. But the US market weakened yesterday as the dollar put in a stronger performance.

Dealers said gold was still tied to currency markets but had shaken off its allegiance to moves in the Commodity Research Bureau index.

Compiled from Reuters

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1441-2	1471-2
Previous	1444.5-5.5	1474.5-5
High/low	1433	1473/1462
AM Official	1433-3.5	1464-4.5
Kerb close		1473-3.5
Open int.	271,782	
Total daily turnover	48,404	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1440-50	1458-60
Previous	1450-60	1465-70
High/low		1460/1455
AM Official	1435-45	1450-5
Kerb close		1456-60
Open int.	2,930	
Total daily turnover	746	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	538-9	556-7
Previous	540-1	558-8.5
High/low		558/547
AM Official	530.5-1	547-7.5
Kerb close		555-6
Open int.	37,489	
Total daily turnover	8,363	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	6390-400	6480-90
Previous	6400-18	6490-500
High/low	6270/6265	6515/6345
AM Official	6268-70	6360-5
Kerb close		6490-500
Open int.	56,252	
Total daily turnover	10,497	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5570-80	5640-50
Previous	5570-80	5655-65
High/low	5575	5650/5615
AM Official	5538-42	5620-1
Kerb close		5630-40
Open int.	16,313	
Total daily turnover	4,195	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	984-5	1009.5-10
Previous	989.5-90.5	1015-5.5
High/low		1012/1002
AM Official	977-8	1003-3.5
Kerb close		1009-10
Open int.	106,195	
Total daily turnover	20,742	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2436-7	2451-2
Previous	2419-20	2433-3.5
High/low		2465/2421
AM Official	2403.5-4.5	2420-1
Kerb close		2464-5
Open int.	281,456	
Total daily turnover	69,380	

■ LME AM Official £/$ rate: 1.5362
LME Closing £/$ rate: 1.5304

Spot:1.5315 3 mths:1.5295 6 mths:1.5277 9 mths:1.5257

■ HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	Low	Open int.	Vol
Jun	112.85	+1.15	112.85	112.85	321	82
Jul	113.20	+1.45	114.35	110.50	20,913	2,872
Aug	113.40	+1.55	112.80	112.20	702	3
Sep	113.60	+1.65	114.75	110.70	25,898	5,183
Oct	113.00	+1.85	-	-	275	2
Nov	112.50	+1.85	-	-	239	-
Total					61,809	8,896

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (Troy oz.)	$ price	£ equiv.
Close	390.50-390.90	
Opening	392.80-393.20	
Morning fix	393.15	256.024
Afternoon fix	392.45	255.501
Day's High	393.80-394.20	
Day's Low	390.10-390.50	
Previous close	390.50-390.90	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.04	6 months	4.41
2 months	4.09	12 months	4.81
3 months	4.16		

Silver Fix	p/troy oz.	US cts equiv.
Spot	360.65	554.40
3 months	365.25	560.75
6 months	369.85	567.20
1 year	382.10	584.35

Gold Coins	$ price	£ equiv.
Krugerrand	398-401	259-262
Maple Leaf	403.85-408.40	-
New Sovereign	93-96	61-64

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int.	Vol.
Jun	389.5	-4.8	392.5	389.7	534	87
Jul	390.0	-4.9	-	-	-	-
Aug	391.4	-4.9	395.5	390.0	88,350	57,195
Oct	394.3	-4.9	398.4	393.7	5,497	767
Dec	397.8	-4.9	401.7	396.0	28,359	2,275
Feb	401.2	-4.9	405.0	401.0	6,740	737
Total					161,383	63,909

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int.	Vol.
Jul	407.4	-3.7	412.0	405.5	9,893	1,478
Oct	410.5	-3.5	414.5	408.5	11,806	1,545
Jan	413.0	-3.2	414.0	411.0	1,218	9
Apr	415.4	-2.9	416.0	414.0	1,168	3
Total					24,086	3,035

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int.	Vol.
Jun	139.05	+0.05	139.25	139.00	47	-
Sep	138.55	-0.95	140.00	138.00	3,790	183
Dec	138.75	-0.95	140.00	138.25	1,011	1
Mar	138.75	-0.95	-	-	1	-
Total					4,849	184

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Open int.	Vol.
Jun	536.8	-22.3	-	-	1	-
Jul	537.2	-22.3	556.0	534.0	54,808	24,839
Aug	540.1	-22.3	-	-	4	-
Sep	542.1	-22.4	561.0	538.0	35,248	8,191
Dec	549.5	-22.5	569.0	546.0	18,812	680
Jan	551.2	-22.5	-	-	32	-
Total					124,718	33,790

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open int.	Vol
Aug	19.51	+0.13	19.74	19.35	13,986	32,487
Sep	18.99	+0.09	19.20	18.84	92,380	67,098
Oct	18.69	+0.08	18.91	18.68	88,175	25,698
Nov	18.50	+0.07	18.63	18.50	29,876	7,845
Dec	18.35	+0.08	18.52	18.35	24,835	3,758
Jan	18.32	+0.10	18.42	18.30	35,603	3,866
Total					398,325	150,444

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Open int.	Vol
Aug	17.43	+0.13	17.61	17.36	73,136	26,001
Sep	17.26	+0.10	17.38	17.18	30,827	0,923
Oct	17.18	+0.02	17.27	17.11	10,121	3,552
Nov	17.08	-	17.10	17.05	6,531	1,992
Dec	17.08	+0.04	17.15	17.08	10,441	1,171
Jan	-	-	-	-	2,896	296
Total					140,720	43,457

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int.	Vol
Jul	50.18	-0.38	50.75	50.18	27,367	8,828
Aug	50.50	-0.35	51.18	50.40	28,032	9,241
Sep	51.24	-0.30	51.85	51.30	15,006	4,489
Oct	52.25	-0.25	52.80	52.25	10,380	814
Nov	53.40	-	53.70	53.40	7,059	509
Dec	54.05	-0.20	54.75	54.05	18,727	1,806
Total					134,736	26,783

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Open int.	Vol
Jul	158.75	-1.75	159.75	158.50	29,445	8,046
Aug	158.75	-1.75	160.75	158.75	13,061	4,095
Sep	160.50	-1.75	162.50	160.50	8,244	1,335
Oct	163.25	-2.25	165.25	163.25	8,243	490
Nov	165.75	-1.75	167.00	165.75	5,324	257
Dec	167.50	-1.50	169.25	167.00	13,828	674
Total					90,167	13,094

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Open int.	Vol
Jul	2.030	-0.048	2.070	2.030	12,159	13,455
Aug	2.112	-0.013	2.125	2.118	18,219	3,363
Sep	2.136	-0.009	2.145	2.130	11,670	1,550
Oct	2.160	-0.006	2.185	2.150	10,355	793
Nov	2.229	-0.004	2.230	2.220	11,286	721
Dec	2.330	+0.002	2.330	2.321	14,473	850
Total					122,811	22,089

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int.	Vol
Jul	53.70	-0.13	54.35	53.50	28,450	14,675
Aug	53.95	-0.17	54.80	53.80	32,294	7,672
Sep	53.65	-0.15	54.40	53.60	12,089	3,108
Oct	52.30	-0.20	52.75	52.30	4,798	612
Nov	51.18	-0.40	51.75	51.10	4,647	85
Dec	55.70	-0.10	55.80	55.70	2,985	111
Total					87,339	28,384

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int.	Vol
Jun	114.90	-	116.00	115.00	73	27
Sep	102.00	+0.85	102.00	101.75	444	30
Nov	102.75	+0.70	102.75	102.55	2,201	118
Jan	104.55	+0.85	104.60	104.40	1,352	66
Mar	106.20	+0.80	106.15	106.15	450	11
May	107.90	+0.65	108.00	107.75	378	108
Total					4,898	360

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int.	Vol
Jul	319/4	-5/0	325/6	319/0	74,695	36,485
Sep	326/4	-4/4	333/0	326/0	66,035	21,490
Dec	337/4	-5/0	344/8	337/0	115,220	53,300
Mar	341/0	-4/2	347/2	340/0	18,140	4,970
May	334/4	-1/8	336/0	334/4	335	-
Jul	320/0	-1/4	322/0	320/0	2,055	250
Total					276,480	116,395

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Open int.	Vol
Jul	259/0	-6/2	265/4	258/4	339,125	112,825
Sep	252/4	-7/4	260/0	252/0	224,935	51,940
Dec	244/4	-9/4	253/8	244/0	576,505	267,035
Mar	252/4	-8/0	260/6	252/4	63,550	8,320
May	257/4	-7/2	265/0	257/4	10,550	1,320
Jul	258/2	-7/2	266/4	259/0	18,395	3,870
Total					N/A	N/A

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int.	Vol
Sep	99.00	-0.30	-	-	196	-
Nov	100.20	-0.05	100.25	100.00	359	32
Jan	101.75	-	-	-	28	-
Mar	103.00	-	-	-	25	-
May	104.60	-	-	-	3	-
Total					611	32

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int.	Vol
Jul	667/0	-8/4	680/4	664/0	160,818	76,190
Aug	662/6	-10/2	677/0	661/0	107,865	34,960
Sep	649/6	-12/6	664/0	648/4	52,485	7,675
Nov	636/4	-14/0	652/4	634/4	386,830	204,573
Jan	643/4	-14/0	658/0	640/4	30,320	5,160
Mar	649/2	-13/4	663/0	648/0	14,095	1,355
Total					N/A	N/A

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Open int.	Vol
Jul	26.88	-0.56	27.08	26.93	14,910	8,788
Aug	27.00	-0.66	27.52	26.94	15,413	8,711
Sep	26.91	-0.54	27.40	26.80	12,204	2,575
Oct	26.54	-0.59	27.18	26.48	9,106	740
Dec	26.23	-0.58	26.80	26.08	23,870	8,044
Jan	26.18	-0.54	26.65	26.05	2,798	70
Total					N/A	N/A

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Open int.	Vol
Jul	192.4	-2.3	195.4	191.8	16,984	9,186
Aug	192.8	-2.3	196.0	192.0	19,780	6,872
Sep	192.6	-2.2	195.3	191.3	14,278	2,979
Oct	189.8	-2.6	192.7	188.8	6,530	986
Dec	188.8	-3.1	192.5	188.3	19,466	11,663
Jan	189.1	-2.7	191.3	188.5	1,802	154
Total					N/A	N/A

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int.	Vol
Nov	90.0	-	-	-	-	-
Mar	105.0	-	-	-	-	-
Apr	158.5	+7.8	158.5	131.5	835	130
May	140.0	-	-	-	-	-
Jun	107.5	-	-	-	-	-
Total					835	130

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Open int.	Vol
Jun	1323	+18	1318	1318	420	11
Jul	1303	+25	1308	1294	928	205
Aug	1290	+14	1300	1290	253	153
Oct	1357	+3	-	-	488	-
Jan	1367	+1	-	-	232	-
Apr	1388	+13	-	-	109	-
Total					2,580	369

	Close	Prev
BFI	1313	1312

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int.	Vol
Jul	987	-16	996	985	13,771	1,210
Sep	1000	-15	1016	1000	19,785	1,446
Dec	1020	-12	1033	1019	28,248	988
Mar	1038	-8	1052	1038	28,070	814
May	1050	-7	1065	1058	10,773	65
Jul	1061	-7	1078	1065	3,329	52
Total					111,554	5,040

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Open int.	Vol
Jul	1287	-46	1335	1280	746	168
Sep	1297	-47	1376	1285	40,218	7,724
Dec	1336	-43	1415	1330	12,147	1,203
Mar	1365	-54	1445	1365	7,971	24
May	1391	-57	1395	1391	2,539	5
Jul	1418	-57	-	-	2,346	4
Total					70,816	8,129

■ COCOA (ICCO) (SDR's/tonne)

June 21	Price	Prev. day
Daily	1038.37	1032.88
10 day average	N/A	N/A

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int.	Vol
Jul	2285	-88	2360	2285	7,379	1,101
Sep	2279	-65	2340	2278	20,053	2,395
Nov	2267	-54	2315	2262	7,342	458
Jan	2255	-54	2290	2250	8,343	334
Mar	2228	-51	2270	2220	2,603	108
May	2225	-55	-	-	227	-
Total					43,947	4,396

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int.	Vol
Jul	127.40	-3.80	133.00	126.10	2,175	5,080
Sep	129.85	-4.05	135.20	127.85	30,063	9,175
Dec	129.45	-3.50	133.75	128.80	13,136	1,836
Mar	127.40	-3.50	131.75	127.00	7,834	878
May	127.75	-2.50	129.50	128.50	1,108	83
Jul	127.25	-2.00	127.00	127.00	200	22
Total					54,655	17,072

■ COFFEE (ICO) (US cents/pound)

June 21	Price	Prev. day
Comp. daily	125.80	123.64
15 day average	120.42	119.84

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

	Sett price	Day's change	High	Low	Open int.	Vol
Jul	12.25	-0.26	-	-	3,385	-
Oct	12.09	-0.31	-	-	1,101	-
Jan	11.82	-	-	-	-	-
Mar	11.73	-0.28	-	-	60	-
Total					4,546	-

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int.	Vol
Aug	347.70	-2.50	353.50	347.40	11,707	2,814
Oct	320.90	-4.50	326.50	320.50	9,270	904
Dec	314.40	-4.50	319.50	314.00	847	14
Mar	311.90	-4.60	317.60	311.50	2,665	224
May	311.00	-4.60	314.00	313.50	201	8
Aug	310.30	-4.30	313.00	313.00	306	5
Total					25,032	3,769

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int.	Vol
Jul	11.89	-0.27	12.15	11.80	18,939	7,667
Oct	11.83	-0.33	12.19	11.80	74,159	7,601
Mar	11.57	-0.26	11.87	11.55	28,129	1,576
May	11.57	-0.27	11.80	11.57	4,229	247
Jul	11.58	-0.18	11.58	11.55	1,820	81
Oct	11.47	-0.15	11.63	11.47	833	32
Total					128,187	17,224

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int.	Vol
Jul	75.14	-2.00	77.10	75.14	5,385	2,779
Oct	75.70	-1.13	76.81	75.70	7,754	1,751
Dec	75.35	-0.60	75.80	75.28	28,929	5,850
Mar	76.35	-0.55	76.65	76.30	4,220	237
May	76.85	-0.40	77.18	76.80	2,172	194
Jul	77.32	-0.18	-	-	795	67
Total					49,926	16,898

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int.	Vol
Jul	90.00	-0.15	90.75	89.75	5,553	982
Sep	92.70	-0.10	93.40	92.30	11,144	1,081
Nov	94.60	-0.20	95.25	94.50	2,187	100
Jan	97.18	-0.15	97.40	96.80	3,234	55
Mar	99.15	-0.30	99.50	99.05	1,330	29
May	101.15	-0.30	-	-	58	5
Total					23,866	2,222

Cotton
Spot and shipment sales in Liverpool amounted to 9 tonnes for the week ended June 17, against none in the previous week. Subdued offtake did not bring many operations. Support was forthcoming in certain specialist styles, notably in the Sudanese range.

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Jun 22	Jun 21	month ago	year ago
2007.0	2006.8	1993.7	1871.3

■ CRB Futures (Base: 4/9/56=100)

Jun 21	Jun 20	month ago	year ago
234.29	234.87	234.89	205.62

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int.	Vol
Jun	63.000	-1.125	64.000	62.850	2,033	1,361
Aug	62.850	-0.860	63.500	62.400	33,818	8,203
Oct	66.850	-0.775	67.425	66.400	17,308	2,801
Dec	68.400	-0.350	68.650	68.000	10,794	1,104
Feb	69.275	-0.350	69.500	68.900	7,558	503
Apr	70.375	-0.425	70.750	70.175	3,438	188
Total					75,536	13,983

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int.	Vol
Jun	47.500	-0.525	47.975	46.850	560	546
Jul	46.950	-0.950	47.950	46.750	6,960	1,831
Aug	46.700	-0.525	47.300	46.325	8,960	2,125
Oct	43.450	-0.475	43.975	43.300	4,534	438
Dec	43.850	-0.300	44.350	43.600	3,311	233
Feb	43.700	-0.350	44.130	43.600	814	89
Total					25,971	5,174

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int.	Vol
Jul	42.000	-2.000	44.130	42.000	3,210	950
Aug	41.350	-2.000	43.450	41.350	4,009	849
Feb	47.800	-1.150	48.300	47.400	533	74
Mar	46.975	-0.125	47.800	46.975	37	4
May	50.425	-	-	48.800	33	2
Jul	48.500	-1.200	-	48.500	13	1
Total					7,848	1,876

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Aug	Nov	Aug	Nov
1450	47	89	37	54
1475	26	78	49	65
1500	26	84	65	78
■ COPPER (Grade A) LME	Aug	Nov	Aug	Nov
2400	118	139	36	89
2450	86	114	55	113
2500	61	92	75	140
■ COFFEE LCE	Jul	Sep	Jul	Sep
2250	200	247	171	230
2300	177	228	198	261
2350	158	218	229	293
■ COCOA LCE	Jul	Sep	Jul	Sep
975	60	98	35	53
1000	47	85	47	65
1050	28	63	78	93
■ BRENT CRUDE IPE	Aug	Sep	Aug	Sep
1650	119	-	20	-
1700	84	83	32	57
1750	45	-	50	77

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Aug)

		+or-
Dubai	$16.26-6.39q	-0.105
Brent Blend (dated)	$17.60-7.62	-0.08
Brent Blend (Aug)	$17.47-7.49	-0.11
W.T.I. (1pm est)	$18.59-8.61q	-0.17

■ OIL PRODUCTS NWEprompt delivery CIF (tonne)

Premium Gasoline	$185-187	-1.5
Gas Oil	$155-155	-2.0
Heavy Fuel Oil	$79-82	+0.5
Naphtha	$165-168	
Jet Fuel	$167-169	-1.0

Petroleum Argus Estimates

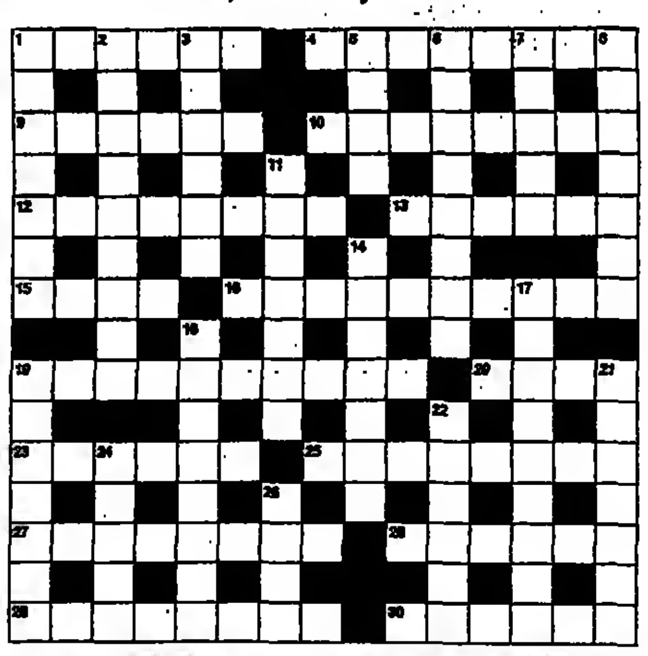
■ OTHER

Gold (per troy oz)♣	$390.70	
Silver (per troy oz)♣	544.50c	-7.00
Platinum (per troy oz.)	$408.50	+2.65
Palladium (per troy oz.)	$138.50	-0.75
Copper (US prod.)	117.0c	
Lead (US prod.)	35.75c	
Tin (Kuala Lumpur)	14.30m	-0.05
Tin (New York)	258.50c	-1.00
Zinc (US Prime W.)	Unq.	
Cattle (live weight)†	122.16p	-3.65*
Sheep (live weight)†♠	98.97 p	-13.37*
Pigs (live weight)	80.05p	-2.01*
Lon. day sugar (raw)	$306.18	
Lon. day sugar (wte)	$358.60	+8.00
Tate & Lyle export	£312.00	
Barley (Eng. feed)	£105.5t	
Maize (US No3 Yellow)	$143.0	
Wheat (US Dark North)	£180.0	
Rubber (Jul)♥	77.75p	+0.25
Rubber (Aug)♥	77.75p	+0.25
Rubber(KL RSS No1 Jul)	275.50m	+1.00
Coconut Oil (Phil)§	$620.0z	
Palm Oil (Malay.)§	$505.0q	-5.0
Copra (Phil)§	$408.0	
Soyabeans (US)	£185.0z	-4.0
Cotton Outlook A Index	N/A	
Wooltops (64s Super)	422p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. q Aug. t Oct/Dec z Jun/Jul. w Jul. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. ♠ Sheep (Live weight prices). * Change on week, provisional prices.

CROSSWORD

No.8,487 Set by DANTE



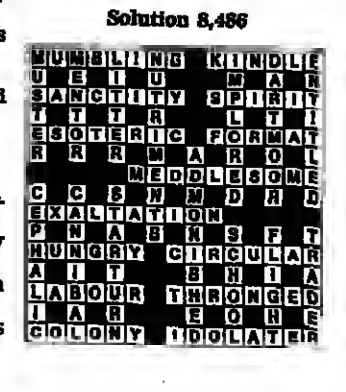
ACROSS

1 An eight foot long snooker rest (6)
4 A tramp is making a stew of beef (8)
9 Cathy's rocking the boats (6)
10 It's for drawing daily fuel (8)
12 Introduce girl to mysterious rite with incense (8)
13 A binding affair is arranged (6)
15 Lighting the gas? (4)
16 A rendition becoming excessive (10)
19 Untidy diary reads badly (10)
20 Strike action when mates are sent back (4)
23 A number sail out east, in case (6)
25 I covered for ex-union member (8)
27 Looks up to certain relations (8)
28 Cowardly sort of spirit? (6)
29 Old Italian civilisation's wild centaurs (8)
30 Entry on the right (6)

DOWN

1 Staying out in the dark? (7)
2 *Contract debts without interest* (9)
3 Set tea served in a stately home (6)
5 Long for a piece of Gouda cheese (4)
6 Aquatic creature softly goes into ground (8)
7 A look of being indifferent (5)
8 As enjoyed by a sick celebrity? (3,4)
11 Antoine may be from a public school (7)
14 Country full of males in song (7)
17 Local date incorrectly given out (9)
18 Shakespearian magician's ring vanishes with flourishes (8)
19 I'd come up with poetry that's different (7)
21 Here and now (7)
22 It will flatten s canary (6)
24 Not a game-keeper? (5)
26 Mount hotly tipped when it runs (4)

Solution 8,486



JOTTER PAD

LONDON STOCK EXCHANGE

MARKET REPORT

Confident close as dollar sentiment improves

By Terry Byland, UK Stock Market Editor

Reports that President Clinton planned to make a statement on the US dollar reached London towards the close of trading, underpinning a rally in share prices as British government bonds rose sharply. The stock market, already encouraged by a steadier trend in the dollar and by the minutes of the latest meeting between the UK chancellor of the exchequer and the Governor of the Bank of England, moved higher in the final hour of trading to finish at the day's best levels.

President Clinton's statement followed comments from Mr Alan Greenspan, chairman of the Federal Reserve, that the inflation outlook in the US appeared very reasonable. Bond markets, taking the view that defence for the dollar might exclude higher interest rates in the US, advanced strongly.

The FT-SE 100 Index ended 20.2 higher at 2,960.4, the first recovery after four sessions of losses. By Tuesday's close, the index had fallen by about 3.5 per cent since the market began to slide in the middle of last week.

After a slow start, equities began to edge ahead early yesterday with the help of e steadier trend in the US dollar and in Federal bonds at the close of the New York session. But an early Footsie rise of 19.5 was not held. In the absence of genuine investor support, gains were halved as investors waited for Mr Greenspan to begin his testimony to the House Budget Committee.

Seaq volume was very slow to develop, and barely reached 200m shares by mid-morning. Underlying confidence continued to improve when the minutes of the May 4 meeting of the UK chancellor and the Bank of England Governor indicated that fears that domestic interest rates were poised to rise might have been overdone. Another modest reduction in money market repo rates in Germany also helped to cool nervousness.

Account Dealing Dates		
*First Dealings:		
Jun 6	Jun 20	Jul 4
Option Declarations:		
Jun 16	Jun 30	Jul 14
Last Dealings:		
Jun 17	Jul 1	Jul 15
Account Day:		
Jun 27	Jul 11	Jul 25

*New time dealings may take place from two business days earlier.

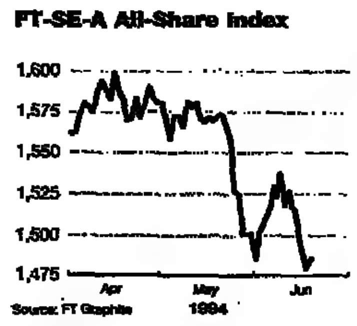
However, the London market was still no more than quietly firm when New York opened and Mr Greenspan began his testimony by saying that he would not speak about the dollar. It was late in the session when the President's statement reached London, and the sudden recovery in share prices owed as much to technical factors as to genuine investment buying. Market-makers were only too happy to buy stock to meet the wave of selling commitments taken aboard on Monday and Tuesday.

Second line stocks were left behind as the market turned, and the FT-SE Mid 250 Index remained in the doldrums, closing 0.7 down at 3,461.2.

There were strong recoveries in some interest rate-related stocks which had been hit hard in the market shakeout. Oil shares, too, returned to favour as crude prices continued to make progress. Among the market's bid features, Enterprise Oil moved higher, reflecting growing belief in the stock market that its bid for Lasmo will fail; shares in Lasmo gave ground but remained well above their level at the time of the Enterprise approach.

The late rush to buy stock caused delay in the Stock Exchange calculation of total Seaq business. At 4.30pm, the Seaq total stood at 462.4m shares, compared with 544.5m in the previous session, with non-Footsie shares making up only about 52 per cent of the day's equity business. However, retail, or customer, business on Tuesday was worth only £926.4m, indicating that the big investment funds had not been heavy sellers of stock as the market plunged.

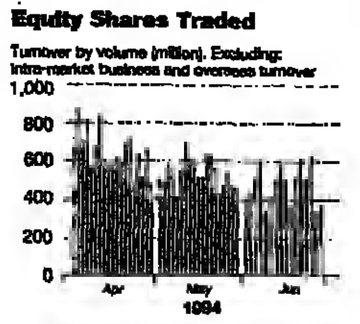
FT-SE-A All-Share Index



Source: FT Graphite

Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Key Indicators

Indices and ratios

FT-SE 100	2960.4	+20.2	FT Ordinary index	2311.6	+15.7
FT-SE Mid 250	3461.2	-0.7	FT-SE-A Non Fins p/e	18.95	(18.68)
FT-SE-A 350	1492.5	+7.6	FT-SE 100 Fut Sep	2968.0	+30.0
FT-SE-A All-Share	1485.05	+7.02	10 yr Gilt yield	8.77	(9.01)
FT-SE-A All-Share yield	3.97	(3.99)	Long gilt/equity yld ratio:	2.25	(2.23)

Best performing sectors

1. Gas Distribution +3.6
2. Building Materials +2.3
3. Insurance +1.4
4. Extractive Inds +1.3
5. Oil, Integrated +1.3

Worst performing sectors

1. Pharmaceuticals -1.5
2. Engineering, Vehicles -0.9
3. Consumer Goods -0.5
4. Distributors -0.4
5. Household Goods -0.4

Glaxo out of favour

Pharmaceuticals heavyweight Glaxo led the sector down on speculation that the company had, as one dealer put it, "taken a bath in the bond market". These suggestions were accompanied by a downgrade of Glaxo shares by one US bank and rumours of negative comments by another.

Analysts have been scrutinising Glaxo's investment portfolio over the past few days as the group approaches its year-end and some believe that as much as half of its £2bn securities investments are in the badly hit global bond market.

Yesterday there were whispers that the company might have lost heavily in bonds. Although some analysts were sceptical, the shares were marked down in early trading.

Then, dealers heard that Goldman Sachs had cuts its Glaxo profits forecast for the current year by £50m to £1.9bn, telling clients that sales growth of both Zantac, the top-selling anti-ulcer treatment, and also of its anti-emetic treatment for cancer patients, were slowing more than anticipated. Finally, there were reports that Lehman Brothers had prepared a negative report on weekly prescriptions for Zantac.

The stock ended the day 14¼ lower at 538p. The fall unsettled SmithKline Beecham, whose "A" shares slipped 5 to 403p, and Zeneca, off 4 at 712p.

Builders strong

There was a positive tone again evident in the construction and building matsrials sector, with the good news flow continuing. Construction group Y.J. Lovell said price levels in the residential sector were showing an upward trend and sales incentives were being steadily reduced as it reported an interim loss of £1.13m, against £3.98m the previous year. The shares slipped 3 to 83p.

There were also encouraging words from John Laing as it announced e £72.5m property deal. The shares rose 13 to 287p. The building group said it believed prices for new houses in the UK had stabilised and Laing Homes was beginning to see some price increases in the south east.

Elsewhere, Beazer Homes added 5 to 147p, Taylor Woodrow 9 to 133p, Barratt 6 to 201p – with NatWest said to be positive on the latter two – and Berkeley Group 7 to 403p. Among materials suppliers, Caradon gained 13 to 293p, BPB Industries 10 to 292p, Blue Circle – being recommended by Panmure Gordon – 16 to 285p and RMC Group 19 to 828p.

News that Singapore Airlines had placed a firm order for 10 Airbus A340-300 and 20 options helped British Aerospace gain 4 to 465p. The company builds the wings of the aircraft and is a 20 per cent stake holder in the Airbus consortium.

Sentiment was further boosted by reports that BAe has renewed talks with Taiwan Aerospace Corporation over a joint venture to prodnce regional aircraft. Overseas interest in the stock continues and the group said foreign holdings in the company stood at 28.7 per cent, just shy of the 29.5 per cent permitted under the company's articles of association.

The engine order for the new Singapore Airlines aircraft went to US group Pratt & Whitney dampening sentiment in Rolls-Royce. The shares eased 1¼ to 182p, in trade of 4.7m with reports of a delayed order from Malaysia also hurting the stock.

Conglomerate Tomkins edged a penny forward to 224p, with Smith New Court reported to be recommending the shares.

A stock overhang in engineering group GKN which returned to the list of FT-SE 100 companies this week, saw the shares relinquish 8 to 574p. The stock was initially hit by vague talk of a profits downgrading.

Royal Bank of Scotland trod water as the bank said there were no strategic implications over what it would do with the cash raised from the sale of its 7.3 per cent stake in venture capital group 3i, which was floated yesterday. The shares closed steady at 428p. The offer of £711m of equity in 3i was 1.7 times oversubscribed and the shares will be placed with institutions at 272p each, a 13.5 per cent discount to net asset value.

Lloyds Bank shares fell 1¼ to 548p as Smith New Court turned seller and cut its current year forecast by £150m to £1100m. Mr Richard Coleman of Smith's banking team said: "Even if they get Cheltenham and Gloucester it doesn't transform Lloyds into a high growth dynamic stock."

Chemicals group ICI jumped 17½ to 756p in reponse to a positive presentation by the company to analysts and subsequent recommendations. ICI said that conditions in its Tioxide subsidiary were improving. Many brokers were recommending the shares including Smith New Court, UBS and Kleinwort Benson.

BAT Industries fell sharply in early dealing as the market digested news that its Brown & Jackson unit in the US had sneaked through a high nicotine tobacco and used it in some cigarettes. However, the shares recovered later to close barely unchanged at 390½p.

Mildly disappointing results from First Leisure was the signal for a sell-off in the shares, which finally ended the session 19 off at 289p, although turnover was a measley 380,000. Analysts lowered their full-year profit forecasts by around 5 per cent, representing largely the fall in margins in the ten-pin bowling division.

Relief over the result of the George Micheel versus Sony court case lifted Thorn EMI, with investors likely to be further buoyed by the publication of the MMC report into compact disc prices, due today. The commission is widely expected to exonnerate the record companies, although retailers are thought more likely to come in for some muted criticism. Thorn shares gained 11 to 1045p.

Drinks stocks were subdued, although Guinness managed a rise 5 to 453p on reports of a five-fold rise in Guinness sales due to the soccer World Cup, as well as a Bell's whisky presentatioo to analysts.

Good results from Carpetright could not stop the shares from being subject to profit-taking and they retreated 6½ to 249½p.

Freight group NFC continued to be powered by a James Capel buy recommendation issued on Tuesday.

The shares added another 3¼ to 190¼p. The company said after the market close that it is to terminate plans for a scrip dividend in respect of the first interim dividend for the year 1993/94.

MARKET REPORTERS:
Peter John,
Christopher Price,
Joel Kibazo.

■ Other statistics, Page 23

NEW HIGHS AND LOWS FOR 1994

NEW HIGHS (8).
BLDG MATLS & MCHTS (1) Halstead (J), CHEMICALS (1) Amber Ind., ENGINEERING (1) Newmark (L), EXTRACTIVE INDS (2) FOOD MANUF (1) Treat, SPIRITS, WINES & CIDERS (1) Macdonald Martin A, SOUTH AFRICANS (1).
NEW LOWS (201).
OTHER FIXED INTEREST (4) BANKS (2) BREWERIES (4) Greenalls, Greene King, Marston Thompson, Vaux, BUILDING & CNSTRN (11) BLDG MATLS & MCHTS (5) CRH, Graham, Heywood Williams, Do Cnv. Prf., Pilkington Wts., CHEMICALS (3) AGA, Doeflex, Scapa, DISTRIBUTORS (6) Charles Sidney, Cowie, Inchcape, Lex Service, Time Products, DIVERSIFIED INDLS (6) Bibby (J), Cannon Street Invs., Charter, Hanson 9½pc Cnv. Bd., Powell Duffryn, Unichem, ELECTRICITY (1) South Wales, ENGINEERING (8) Black & Decker, Chamberlin & Hill, IMI, Johnson Matthey, McKechnie, Meggitt, Weir, Whessoe, BNG, VEHICLES (4) BBA Group, Do 6¼pc Cnv. Prf., Benson, Lucas Inds., EXTRACTIVE INDS (3) FOOD MANUF (10) Assoc. Brit. Foods, Canadian Pizza, Dalgety, Dewro Intl., Golden Vale, Hazlewood, Northern Foods, Tate & Lyle, Unilever, Do NV, HEALTH CARE (6) AAH, Court Cavendish, CrestaCare, Enviromed, Goldsborough, Quality Care Homes, HOUSEHOLD GOODS (3) Lilliput, Reckitt & Colman 9½pc Cnv. Bd., Silentnight, INSURANCE (3) INVESTMENT TRUSTS (34) INVESTMENT COMPANIES (7) LIFE ASSURANCE (1) MEDIA (6) Avesco, Carlton Comms. 6½p Prf., Daily Mail A, Elsevier, News Intl., Reed Intl., MERCHANT BANKS (1) OIL EXPLORATION & PROD (1) OIL, INTEGRATED (2) OTHER FINANCIAL (6) PHARMACEUTICALS (2) PRTNG, PAPER & PACKG (1) Stora B, PROPERTY (13) RETAILERS, GENERAL (9) Carpetright, DFS, Essex, Lloyds Chemists 7½p Prf., MFI, Menzies (J), Nottingham, Sothebys A, Wyevale Garden Centres, SPIRITS, WINES & CIDERS (3) Bulmer (HP), Grand Met., Merrydown, SUPPORT SERVS (6) Comac, Gresham Telecomputing, Macro 4, Microgen, Mileys, OIS Intl., RCO, Virtuality, TELECOMMUNICATIONS (2) Securicor A, Security Services, TEXTILES & APPAREL (6) Gent (SR), Leeds, Leslie Wise, Marling, Sherwood, TOBACCO (1) BAT, TRANSPORT (2) Eurotunnel Uts., Mersey Docks & Harbour, WATER (2) Northumbrian, Wessex, AMERICANS (4) CANADIANS (12).

EQUITY FUTURES AND OPTIONS TRADING

Footsie futures rallied strongly on the back of e recovering bond sector and talk of an impending statement on the US dollar, writes Joel Kibazo.

The first trade in the September FT-SE 100 contract was struck at 2,948. But for a brief decline to 2,941, buyers carried the contract forward throughout the day. The smaller broking houses and independent operators (locals) were reported to have been the main buyers in the first half of the session. The reduction in interest rates in several European countries and the improvement in bonds underpinned the buying activity, helping September to maintain a premium to cash.

Reports that the US President was to make a statement on the dollar, and the strong buying on Wall Street, gave further encouragement to derivatives traders in London which brought a squeeze on the contract towards the close.

September ended at 2,968, up 30 from its previous finish and at a premium to the cash market, although at a slight discount to its fair value premium to cash of 13 points. Dealers reported a further rise in after-hours' trading. Closing volume was 14,304.

Turnover in traded options improved to reach 33,792 contracts. FT-SE 100 option volume was 12,720 lots, and 2,154 were traded in Land Securities to make it the busiest stock option.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	2948.0	2968.0	+30.0	2992.0	2941.0	14304	50269
Dec		2977.0	+30.0			0	952

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	3482.0	3449.0	-1.0	3482.0	3445.0	201	3898

■ FT-SE MID 250 INDEX FUTURES (OMLX) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	-	3449.0	-	-	-	-	577

All open interest figures are for previous day. † Exact volume shown.

■ FT-SE 100 INDEX OPTION (LIFFE) (*2957) £10 per full index point

	2800 C	2800 P	2850 C	2850 P	2900 C	2900 P	2950 C	2950 P	3000 C	3000 P	3050 C	3050 P	3100 C	3100 P	3150 C	3150 P
Jul	176½	14	134½	21	98½	34	64	52½	38	78½	22	112½	12	152½	6½	195½
Aug	197	34	162	47½	127	62½	98½	84	72½	107½	52	136½	36½	170½	22	207½
Sep	215	49	178½	62	145	79½	115½	99	89	121	67½	149½	48½	181	35	217½
Oct	226	60½	189½	72½	159½	91½	131½	112	106½	137	87½	167	68½	197½	55½	235
Dec†	249	76½			186	113½			131½	159			88½	215		

Calls 4,750 Puts 7,783

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	2775 C	2775 P	2825 C	2825 P	2875 C	2875 P	2925 C	2925 P	2975 C	2975 P	3025 C	3025 P	3075 C	3075 P	3125 C	3125 P
Jul	198½	12	153½	17½	114½	28½	79½	41½	50½	64½	29	92½	16	128½	8½	170½
Aug	215	25½	176½	36½	141½	51	110	69½	88	92	68½	119	42	150½	28	186
Sep			188	47½			125	82½			76	132½			41	196
Dec			233½	85½			171½	121			119	166			79½	224
Mar†			270	107½			209½	143			156	188			115½	241½

Calls 2,328 Puts 4,090 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

■ EURO STYLE FT-SE MID 250 INDEX OPTION (OMLX) £10 per full index point

	3450 C	3450 P	3500 C	3500 P	3550 C	3550 P	3600 C	3600 P	3650 C	3700	3750	3800
Jul	53	55½	32¾	84¾	18¾	120	10	181¾	5			

Calls 0 Puts 0 Settlement prices and volumes are taken at 4.30pm.

FT - SE Actuaries Share Indices — The UK Series

	Jun 22	Day's chge%	Jun 21	Jun 20	Jun 17	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	2960.4	+0.7	2940.2	2971.1	3022.9	2900.7	4.16	7.06	16.77	52.31	1106.91
FT-SE Mid 250	3461.2	—	3461.8	3478.7	3527.1	3215.5	3.59	5.89	20.76	53.77	1277.39
FT-SE Mid 250 ex Inv Trusts	3465.2	-0.1	3467.9	3480.9	3527.0	3231.8	3.75	6.30	19.35	55.57	1275.44
FT-SE-A 350	1492.5	+0.5	1484.7	1498.4	1523.3	1444.9	4.04	6.78	17.55	25.64	1142.05
FT-SE SmallCap	1824.63	-0.1	1826.68	1835.58	1850.73	1644.48	3.06	4.06	31.34	22.48	1403.45
FT-SE SmallCap ex Inv Trusts	1806.62	-0.2	1809.73	1815.89	1827.67	1650.06	3.23	4.46	29.16	23.01	1392.72
FT-SE-A ALL-SHARE	1485.05	+0.5	1478.03	1491.12	1515.01	1430.49	3.97	6.58	18.14	25.00	1156.01

■ FT-SE Actuaries All-Share

	Jun 22	Day's chge%	Jun 21	Jun 20	Jun 17	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(18)	2637.75	+1.3	2604.05	2646.96	2682.43	2249.00	3.54	4.44	28.25	37.93	1048.21
12 Extractive Industries(4)	3774.30	+1.3	3724.28	3811.04	3847.36	3094.30	3.51	5.35	23.43	43.39	1029.98
15 Oil, Integrated(3)	2594.62	+1.8	2551.21	2592.12	2634.40	2178.00	3.56	4.58	27.13	40.43	1048.93
16 Oil Exploration & Prod(11)	1969.40	+1.0	1950.58	1953.52	1950.16	1958.70	3.39	1.20	80.00†	16.27	1129.18
20 GEN MANUFACTURERS(283)	1916.69	+0.7	1903.65	1915.48	1942.88	1799.60	3.95	4.75	26.09	30.95	985.93
21 Building & Construction(32)	1160.73	+1.2	1146.76	1155.45	1154.43	1066.40	3.29	4.50	28.67	15.82	900.70
22 Building Matls & Merchs(31)	1830.60	+2.3	1790.10	1791.12	1812.76	1655.70	3.89	4.15	30.79	33.33	855.25
23 Chemicals(21)	2332.86	+0.7	2315.72	2330.16	2371.95	2213.20	3.98	4.12	31.21	43.97	1024.95

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
ASDA Group†	5,100	55½	-½
Abbey National†	895	406	+½
Albert Fisher	246	51	
Allied-Lyons†	1,900	588	+2
Anglian Water	699	473	+3
Argos	621	337	+4
Argyll Group†	3,600	239	-3
Arjo Wiggins†	1,800	257	-1

LONDON EQUITIES

LIFFE EQUITY OPTIONS

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	40	15	17
Other Fixed Interest	6	6	3
Mineral Extraction	87	34	78
General Manufacturers	132	129	399
Consumer Goods	30	57	105
Services	82	104	322
Utilities	13	23	10
Financials	101	66	184
Investment Trusts	98	57	316
Others	31	64	40
Totals	620	577	1473

Data based on those companies listed on the London Share Service.

TRADITIONAL OPTIONS

First Dealings	June 13	Last Declarations	Sept. 15
Last Dealings	June 24	For settlement	Sept. 26

Calls: Aran Energy, Cluff Res, FKI, Hazlewood Fds, Hunterprint, OEM, Tullow Oil. Puts & Calls: Amstrad, Hanson Wts, Lon Fin & Inv, Low (Wm), Rhino.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1994 High	1994 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§120	F.P.	69.7	123	115½	Aero. Hamble	122		W3.74	2.6	3.8	12.1
181	F.P.	46.4	180	180	Amey	169		LN1.08	0.8	5.3	30.1
255	F.P.	143.8	267	256	Argent	262		-	-	-	-
100	F.P.	43.3	108	100	Automotive Precs	106		LN4.0	0.8	4.7	35.6
100	F.P.	31.9	103	100	Baillie Gfrd Shn C	103	+2	-	-	-	-
§150	F.P.	30.5	154	148	Brewin Dolphin	148		L5.8	2.3	4.9	10.8
-	F.P.	219.7			CAMAS						

RIGHTS OFFERS

180	Nil	20/7	23pm	3pm	Dixon Motors	3pm	
240	Nil	28/7	65pm	30pm	Eidos	65pm	+15
-	Nil	17/8	235pm	180pm	Euro-Disney	180pm	-25
265	Nil	14/7	65pm	3½pm	Eurotunnel	10pm	
425	Nil	5/7	35pm	5pm	Evans Halshaw	5pm	-5
425	Nil	1/8	69pm	67pm	Faber Prest	69pm	
105	Nil	20/7	2pm	¼pm	Higgs & Hill	¼pm	
205	Nil	18/7	28pm	3pm	McAlpine (A)	3pm	
100	Nil	25/7	11pm	1pm	NSM	1pm	-1
9	Nil	3/8	¾pm	¼pm	Paramount	¼pm	
5	Nil	21/7	6pm	6pm	Standard Plat	6pm	
250	Nil	27/7	36pm	14pm	Wassall	14pm	
73	Nil	5/8	3pm	¾pm	Wales City of Lon	¾pm	-¼

FINANCIAL TIMES EQUITY INDICES

	June 22	June 21	June 20	June 17	June 16	Yr ago	*High	*Low
Ordinary Share	2311.6	2295.9	2316.1	2373.0	2363.4	2275.8	2713.6	2285.9
Ord. div. yield	4.34	4.37	4.33	4.26	4.24	4.07	4.37	3.43
Earn. yld. % full	5.78	5.81	5.82	5.73	5.70	4.82	5.82	3.82
P/E ratio net	18.41	18.37	18.34	18.64	18.73	26.57	33.43	18.34
P/E ratio nil	18.15	19.06	19.00	19.31	19.40	24.60	30.80	19.00

*For 1994. Ordinary Share index since compilation: high 2713.6 2/02/94; low 49.4 26/6/40
FT Ordinary Share index base date 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2291.9	2309.1	2313.2	2304.5	2304.3	2306.2	2305.5	2306.0	2309.2	2313.9	2291.9

	June 22	June 21	June 20	June 17	June 16	Yr ago
SEAQ bargains	20,248	21,724	24,866	31,307	24,062	28,467
Equity turnover (£m)†	-	926.4	856.5	1455.1	1373.3	1333.9
Equity bargains†	-	23,827	25,868	34,457	25,742	33,184
Shares traded (ml)†	-	391.9	350.2	633.7	513.1	534.6

† Excluding intra-market business and overseas turnover.

FT GOLD MINES INDEX

LONDON SHARE SERVICE

BANKS

Notes	Price	+ or -	1994 High	1994 low	Mkt Cap£m	Yld Gr's	P/E
ABN Amro Fl	[illegible]	—	[illegible]	[illegible]	6,128	5.4	Φ
ANZ A$	192½	+10½	278¾	180¾	2,589	4.6	14.6
Abbey National	[illegible]	+½	[illegible]	361	[illegible]	4.3	13.8
Allied Irish IE	241	—	314	240	1,[illegible]	6.2	9.3
Anglo Irish IE	[illegible]	—	*70	50	178.9	8.3	3.8
Asahi Y	743¾	-5	781¼	628	11,280	3.8	Φ
Banco Bil Viz Pta	£14½	-⅛	[illegible]	£14⅛	3,422	5.6	6.7
Banco Sant Pta	£30½	—	*£30½	£23¾	4,009	4.7	10.6
Bk Ireland IE	[illegible]	—	*319	246	1,229	5.0	7.6
Bank Scotland	184xd	+1	247	172½	2,143	3.4	16.0
9¼pc Pf	115	[illegible]	141½	114	115.0	10.1	-
9¾pc Pf	120¼	[illegible]	148½	119¾	128.2	10.1	-
Barclays	530	+7½	640	487	8,769	3.5	22.3
Dai Ichi Kan Y	212⅜	[illegible]	[illegible]	[illegible]	38,199	0.4	69.5
Deutsche DM	£279½	[illegible]	£344¼	£279⅜	13,312	2.2	-
Espirito Santo	£18⅛	-⅛	[illegible]	£18⅛	193.2	4.4	4.9
First Nat Fin	76	—	*90	60	124.4	2.5	-
6.3pc Cv Pf	[illegible]	—	*90	77	5.38	9.8	-
7pc Cv Pf	140xd	—	171	123	68.4	6.2	-
Fuji Bank Y	1461½	[illegible]	1540¼	1152½	42,320	0.4	Φ
HSBC HK	717	+6½	1133	687	12,442	4.1	10.3
HSBC (75p Shs)	692	+8	1113	688	5,461	4.2	10.0
Lloyds	540	-1½	680	530	7,905	4.0	11.6
Mitsubishi Y	£17⅛	[illegible]	[illegible]	£15⅝	49,166	0.5	Φ
Mits Tst & Bk Y	1034¾	[illegible]	1168¼	887½	13,474	0.8	16.8
Mitsui Tst & Bk Y	797	-8¾	979	814	9,050	0.7	27.2
Nat Aust A$	517¾xd	+14	620¼	502½	6,922	4.6	12.6
NatWest	453	+1½	622	421	7,637	6.1	16.0
Ottomane FFr	£23½	—	£33	£23½	117.4	6.2	Φ
Ryl Bk Scotland	428xd	-½	578	382½	3,411	6.8	10.8
Sakura Y	[illegible]	[illegible]	[illegible]	[illegible]	29,370	0.8	65.3

CHEMICALS

DISTRIBUTORS

BREWERIES

BUILDING & CONSTRUCTION

DIVERSIFIED INDUSTRIALS

BUILDING MATS. & MERCHANTS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD MANUFACTURERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

MERCHANT BANKS

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER SERVICES & BUSINESSES

PHARMACEUTICALS

PRINTING, PAPER & PACKAGING

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

SPIRITS, WINES & CIDERS

SUPPORT SERVICES

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

TRANSPORT - Cont.

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

GUIDE TO LONDON SHARE SERVICE

preliminary figures. a Dividend yield excludes a special payment. ‡ Indicated dividend yield, p/e ratio based on latest annual earnings. a Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings official estimates for 1993. § Yield based on prospectus or other official estimates for 1994. L Estimated annualised yield, p/e based on latest annual earnings. ¶ Yield based on prospectus or other official estimates for Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

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AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH. Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

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Thornton Unit Managers Ltd - Contd.

Waverley Unit Tst Mngmt Ltd (1000)F
12 Charlotte Sq, Edinburgh 031-225 1551

Whittingdale Unit Tst Mngmt Ltd (0830)F
2 Honey Lane, London EC2V 8BT 071-600 0462

Woolwich Unit Trust Managers Ltd (1700)H
2 White Oak Square, Swanley BR8 7AG 081-298 4000

		Bid	Offer	+or-	Yield
Stockmarket Fd	5	74.62	74.60	79.35	+0.42	1.37

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd

Baring Investment Mngmt Ltd
155 Bishopsgate, London EC2M 3XY

INSURANCES

AIG Life

Abbey Life Assurance Co Ltd - Contd.

Abbey National Life Plc
287 St Vincent Street, Glasgow 041 305 8000

Acuma Life Assurance Ltd
42 Southwark Bridge Road, London SE1 9HE 071 980 3433

AEGON Life Assurance Co (UK) Ltd

Century Life Plc

City of Westminster Assurance Co Ltd

Clerical Medical Investment Group

Friends Provident

Irish Life Assurance Co Plc - Contd.

Lancashire & Yorkshire Assce Society

Legal & General

Merchant Investors Assurance Co Ltd

M & G Life

MGM Assurance (c)

Norwich Union Life Insurance Soc. - Contd.

Pearl Assurance (Unit Funds) Ltd

Professional Life Assurance Co Ltd

Prudential Individual Pension Funds

Royal Life Insurance Ltd

Scottish Amicable

Scottish Life Investments

FT MANAGED FUNDS SERVICE

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Scottish Mutual Assurance plc
109 St Vincent St, Glasgow 041-248 6321

	Bid Price	Offer Price	+ or -	Yield Gross
Pen Exd Jun 14	1812.5	1882.4	—	—
Pen Mngd May 31	1328.5	1398.5	—	—
Safety Fund	219.7	231.3	+1.70	—
Growth Fund	220.8	232.9	+1.40	—
Opportunity Fund	213.8	225.1	+1.20	—
Worldwide Venture Fnd	175.0	184.3	+0.90	—
UK Equity Fund	226.9	236.9	+1.60	—
UK Smaller Cos. Fund	223.4	235.2	+0.3	—
European Fund	331.1	348.6	+4.60	—
Far Eastern Fnd	349.5	368.9	+1.30	—
Japanese Fnd	151.8	159.8	+0.60	—
North American Fund	227.7	239.7	-0.90	—
International Fund	284.3	299.3	+0.90	—
Gilts & Fxd Int Fund	147.8	157.1	+1.5	—
Index-Linked Fund	171.4	180.5	+0.60	—
Property Fund	130.0	136.9	+0.10	—
Cash Fund	172.2	181.0	—	—
Pens Safety Fnd	263.7	277.6	+2.00	—
Pens Growth Fnd	235.4	247.8	+1.10	—
Pens Opportunity Fnd	238.5	248.1	+1.10	—
Pens Wrldw Venture Fnd	184.3	194.0	+1.10	—
Pens UK Equity Fnd	228.1	239.0	+1.20	—
Pens UK Sml Co's Fnd	202.8	213.5	—	—
Pens European Fnd	303.3	319.3	+4.20	—
Pens Far East Fnd	405.8	427.0	+1.90	—
Pens Japanese Fnd	149.5	157.4	+0.7	—
Pens Nth American Fnd	287.3	302.5	-1.00	—
Pens International Fnd	290.9	306.4	+0.60	—
Pens Gilt/Fxd Int Fnd	223.3	235.1	+1.70	—
Pens Index-linked Fnd	177.0	186.4	+0.50	—
Pens Property Fnd	145.1	152.8	+0.70	—
Pens Cash Fund	213.6	224.9	—	—
Pens Halifax Fnd	228.7	240.8	—	—

Scottish Provident Group
6 St Andrew Sq, Edinburgh 031-556 2052
Scottish Provident Institution Funds

Life Funds

	Bid Price	Offer Price	+ or -	Yield Gross
With-Profits	111.8	117.7	-0.5	—
Managed	259.0	272.7	[illegible]	—

Sun Alliance Group - Contd.

Sun Life Unit Assurance Ltd
St James Barton, Bristol BS99 7SL 0272 426911

Scottish Widows' Group

Standard Life Assurance Company

Sun Alliance Group

Sun Life of Canada (UK) Ltd

TSB Life Ltd

Target Life Assurance Co Ltd

Teachers' Assurance Company Ltd

Tunbridge Wells Equitable

Wesleyan Assurance Society

Windsor Life Assur Co Ltd

Woolwich Life Assurance Co Ltd

Zurich Life Assurance Co Ltd

OFFSHORE INSURANCES

AXA Equity & Law Intl Life Assce Co

Albany International Assurance Ltd

CMI Insurance Co Ltd

CMI Insurance Co Ltd - Contd.

Century Life International Ltd

Eagle Star Intl Life

Equitable Life International

Friends Provident International

Isle of Man Assurance Ltd

Lombard International Group

Providence Capitol International Ltd

Royal Life International Ltd

Royal Scottish Life Assurance Ltd

Scottish Provident Intl Life Ass Ltd

Scottish Provident Intl Life Ass Ltd - Contd.

Sun Alliance International Life

Sun Life International (IOM) Ltd

MANAGEMENT SERVICES

Capital Trust Financial Management

Fidelity Money Funds

Saunders Financial Management

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

Hambros Fd Mgrs (CI) Ltd

Lazard Fund Mngrs (Channel Islands) Ltd

M & G (Guernsey) Ltd

Royal Bk of Canada O/S Fd Mgrs Ltd

Schroder Investment Mngmt (Guernsey) Ltd

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

Capital House Fund Mgrs - Contd.

JERSEY (REGULATED)(**)

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Scrimgeour Kemp-Gee Mngmt., Jersey

TSB Trust Funds (CI)

Warburg Asset Management Jersey Ltd

LUXEMBOURG (SIB RECOGNISED)

Fleming Group - Contd.

Foreign & Colonial Emerging Markets Ltd (x)

S.G. Warburg Asset Mngmt Lux SA

LUXEMBOURG (REGULATED)(**)

H.C.M. HYPO Capital Mgt Luxembourg SA

Templeton Worldwide Investments

Trassworld Bond Trust

US Pacific Stock Fund (x)

OTHER OFFSHORE FUNDS

Emerging Markets Management

Enigma Investments Ltd - Cayman

The Environmental Investment Co Ltd

Jardine Fleming Unit Trusts Ltd - Contd.

Portuguese Investment Fund Ltd

Putnam Emerging Funds Ltd

Putnam International Advisers Ltd

Quantum Group

MANAGED FUNDS NOTES

CURRENCIES AND MONEY

MARKETS REPORT

Dollar above lows

The dollar bounced off its postwar lows yesterday as markets hoped comments from US Treasury secretary Mr Lloyd Bentsen would give an indication of central bank intentions, *writes Motoko Rich.*

As the US Federal Reserve chairman Mr Alan Greenspan refrained from commenting directly on the dollar in his testimony to the House budget committee, the dollar held above the Y100 level, closing in London at Y100.695 from Y101.225. Against the D-Mark, it closed in London at DM1.6006 down from DM1.6009.

Sterling turned in a gloomy performance, shadowing the dollar's downward trend against the D-Mark and responding negatively to the publication of the minutes of the May 4 meeting between the UK chancellor and the Bank of England governor.

■ The dollar was fluctuating close to its post-1945 lows, around Y100.70, after Mr Bentsen said he was "concerned by recent movements in the exchange markets" and that the G7 partners were "prepared to act as appropriate".

After overnight intervention from the Bank of Japan, the dollar had retrieved some of its Tuesday losses. The markets were hesitant to drive the dollar back down as they watched Mr Greenspan's testimony for clues about the Fed's intervention plans. The US currency was not on the agenda however, and the Fed chairman kept largely to his script.

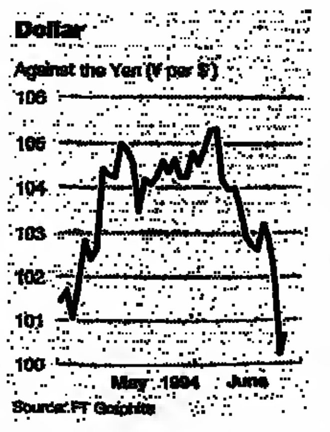
The dollar skipped up when Mr Greenspan said he and Mr Bentsen were "following currency movements". Although inflationary pressures were subdued, he warned of a future re-emergence of inflation.

Publication of the Fed's beige book, which helps the Fed evaluate the state of the US economy, gave the dollar a boost. It showed the US economy still expanding but at an easier pace.

Analysts predicted the dollar's bounce would not hold, however. "I do not think there has been any convincing strength," said Mr Brian Hilliard, economist at SGST. "I would expect the markets to have another go at the dollar to test the resolve of the central banks but I do think a half per cent rise from the Fed would be neither here nor there."

Dollar

Against the Yen (Y per $)



Source: FT Graphite

■ Pound in New York

Jun 22	Latest	Prev. close
£ spot	1.5310	1.5415
1 mth	1.5303	1.5407
3 mth	1.5290	1.5395
1 yr	1.5232	1.5333

The US currency's recent slide against the yen has been helped by strength in the Japanese currency. Ms Jane Edwards, economist at Lehman Brothers, said good export figures and worries that a vote of no-confidence in prime minister Tsutomu Hata's government will set back trade talks between the US and Japan have driven the yen up against the dollar.

■ Sterling was near its eight-month lows against the D-Mark after the minutes of the May 4 meeting between UK chancellor Kenneth Clarke and Bank of England Governor Eddie George revealed a neutral stance on UK interest rate policy.

Although both Mr Clarke and Mr George appeared to have abandoned their "bias towards easing" rates, the minutes showed that an interest rate hike is not imminent.

The pound was hit by traders who were hoping for a near-term rise. Sterling closed in London at DM2.4579 against the D-Mark, from DM2.4612. Against the dollar, it ended in London at $1.5356, from $1.5374.

Analysts said that while the minutes helped push the pound down, it was mainly trading on the dollar's weakness. "The pound's performance against the D-Mark is just a reflection of the dollar's fall against the D-Mark," said Mr Mark Geddes, economist at Midland Global Markets.

The Bank of England provided the UK money markets with £340m liquidity at established interest rates and late assistance of £90m after forecasting a shortage of £600m. Overnight lending rates traded between 6 and 4¾ per cent.

■ As attention was focused on the fragile dollar, the D-Mark ended little changed against most of the European crosses. Against the French franc, it closed in London at FFr3.422 from FFr3.418, against the Belgian franc it ended in London at BFr20.58 from BFr20.59 and against the lira, it closed in London at L983.3 from L987.4.

The Bundesbank's five basis point cut in the repo rate to 5.00 per cent was largely expected and had little effect on the markets.

German call money remained at five per cent, largely unchanged from Tuesday's levels.

■ The futures market was characterised by volatility as rumours of a no-confidence vote in Hata's government in Japan sparked off selling of yen and helped the long end of the markets in bunds, gilts and futures contracts.

"We have seen a dramatic change in what has been a bearish market," said Mr Richard Phillips, broker at GNI. The December Euromark contract traded 44,000 lots and rose to 94.87 from 94.78, discounting the short-term interest rate at 5.13 per cent.

The short term sterling contract for December was trading at thin volumes of 19,000 lots. "Short-sterling has seen a reasonable rally very much led by the longer end of the yield and the gilts market," said Mr Phillips. The December contract closed at 93.74 from 93.68.

■ OTHER CURRENCIES

Jun 22	£	$
Hungary	157.174 - 157.409	102.3600 - 102.480
Iran	2685.00 - 2692.00	1748.00 - 1750.00
Kuwait	0.4552 - 0.4582	0.2965 - 0.2970
Poland	34403.8 - 34475.5	22410.0 - 22445.0
Russia	3015.92 - 3023.60	1964.00 - 1969.00
U.A.E.	5.6158 - 5.6257	3.6715 - 3.6736

POUND SPOT FORWARD AGAINST THE POUND

Jun 22		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.2871	-0.031	787 - 954	17.3509	17.2529	17.2833	0.3	17.2777	0.2	-	-	114.6
Belgium	(BFr)	50.5858	-0.0854	449 - 266	50.7800	50.5020	50.6058	-0.5	50.6508	-0.5	50.5508	0.1	116.0
Denmark	(DKr)	9.6471	-0.0194	403 - 538	9.6877	9.6263	9.6548	-1.0	9.6666	-0.9	9.6627	-0.4	116.1
Finland	(FM)	8.1732	-0.0173	637 - 827	8.2140	8.1540	-	-	-	-	-	-	81.0
France	(FFr)	8.4113	-0.001	068 - 157	8.4244	8.3843	8.4153	-0.6	8.422	-0.5	8.4087	0.8	109.2
Germany	(DM)	2.4579	-0.0033	566 - 591	2.4717	2.4509	2.4577	0.1	2.4589	0.2	2.4376	0.8	124.8
Greece	(Dr)	371.385	-1.204	058 - 712	372.847	370.636	-	-	-	-	-	-	-
Ireland	(I£)	1.0175	+0.0002	165 - 184	1.0225	1.0143	1.0179	-0.4	1.0187	-0.5	1.0199	-0.2	104.4
Italy	(L)	2417.04	-13.36	487 - 920	2431.88	2412.52	2424.04	-3.5	2437.69	-3.4	2487.84	-2.9	76.9
Luxembourg	(LFr)	50.5858	-0.0854	449 - 266	50.7800	50.5020	50.6058	-0.5	50.6508	-0.5	50.5508	0.1	116.0
Netherlands	(Fl)	2.7538	-0.0053	523 - 553	2.7626	2.7487	2.7536	0.1	2.7545	-0.1	2.7324	0.8	120.1
Norway	(NKr)	10.6812	-0.02	769 - 855	10.7220	10.6648	10.6756	0.8	10.6881	-0.5	10.6793	0.8	86.2
Portugal	(Es)	254.219	-1.174	076 - 362	255.495	253.878	255.194	-4.6	257.139	-4.8	-	-	-
Spain	(Pta)	204.627	-0.424	504 - 749	205.379	204.121	205.172	-3.2	206.117	-2.9	209.452	-2.4	84.8
Sweden	(SKr)	11.8118	-0.0366	026 - 209	11.8704	11.7887	11.8345	-2.3	11.8695	-2.0	11.9675	-1.3	75.2
Switzerland	(SFr)	2.0684	-0.0063	671 - 696	2.0784	2.0612	2.0672	0.7	2.0641	0.8	2.0401	1.4	120.2
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	79.6
Ecu	-	1.2812	-0.0021	806 - 818	1.2844	1.2784	1.2823	-1.0	1.2783	0.9	1.2649	-0.3	-
SDR†	-	0.934967	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5328	-0.0018	323 - 332	1.5392	1.5291	-	-	-	-	-	-	-
Brazil	(Cr)	3764.94	+86.47	394 - 593	3766.00	3685.00	-	-	-	-	-	-	-
Canada	(C$)	2.1292	-0.0056	282 - 301	2.1371	2.1247	2.1318	-1.3	2.1362	-1.7	2.1699	-1.9	85.9
Mexico	(New Peso)	5.1865	+0.0016	813 - 917	5.2037	5.1782	-	-	-	-	-	-	-
USA	($)	1.5356	-0.0018	352 - 360	1.5423	1.5320	1.5349	0.5	1.5337	0.5	1.5281	0.5	63.9
Pacific/Middle East/Africa													
Australia	(A$)	2.0647	-0.0035	634 - 659	2.0702	2.0619	2.064	0.4	2.0624	0.4	2.0614	0.2	-
Hong Kong	(HK$)	11.8682	-0.0131	643 - 721	11.9170	11.8418	11.8601	0.8	11.8563	0.4	11.8831	-0.1	-
India	(Rs)	48.1679	-0.0584	515 - 843	48.3740	48.0590	-	-	-	-	-	-	-
Japan	(Y)	154.628	-0.996	549 - 706	156.140	154.250	154.253	2.9	153.418	3.1	149.303	3.4	188.9
Malaysia	(M$)	3.9734	-0.0162	716 - 752	3.9992	3.9648	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.5837	+0.0005	819 - 854	2.5966	2.5796	2.583	0.3	2.5866	-0.4	2.5931	-0.4	-
Philippines	(Peso)	41.4618	-0.0486	434 - 792	42.0284	40.8611	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.7592	-0.0068	575 - 609	5.7841	5.7459	-	-	-	-	-	-	-
Singapore	(S$)	2.3474	-0.0029	464 - 484	2.3551	2.3417	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.6065	-0.0147	012 - 118	5.6379	5.5439	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	7.2558	-0.0315	385 - 730	7.2951	7.1974	-	-	-	-	-	-	-
South Korea	(Won)	1237.54	-3.63	691 - 817	1244.84	1234.95	-	-	-	-	-	-	-
Taiwan	(T$)	41.4094	-0.1585	775 - 413	41.6969	41.3334	-	-	-	-	-	-	-
Thailand	(Bt)	38.4361	-0.1065	107 - 614	38.6100	38.3690	-	-	-	-	-	-	-

†SDR rate for Jun 21. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 22		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan Index
Europe													
Austria	(Sch)	11.2575	-0.007	550 - 600	11.2835	11.2375	11.262	-0.5	11.27	-0.4	11.2075	0.4	103.9
Belgium	(BFr)	32.9420	-0.017	240 - 600	33.0000	32.8700	32.9695	-1.0	33.027	-1.0	33.127	-0.6	105.3
Denmark	(DKr)	6.2823	-0.0053	795 - 850	6.3017	6.2721	6.2913	-1.7	6.3103	-1.8	6.3548	-1.2	104.7
Finland	(FM)	5.3225	-0.005	177 - 273	5.3398	5.3150	5.3257	-0.7	5.3385	-1.2	5.405	-1.6	76.9
France	(FFr)	5.4775	+0.0057	760 - 790	5.4810	5.4555	5.4826	-1.1	5.4914	-1.0	5.449	0.5	105.8
Germany	(D)	1.6006	-0.0003	002 - 010	1.6042	1.5945	1.6014	-0.6	1.602	-0.3	1.5962	0.3	106.2
Greece	(Dr)	241.850	-0.5	700 - 000	242.300	241.300	243.2	-6.7	244.05	-3.6	246.35	-1.9	68.9
Ireland	(I£)	1.5093	-0.0021	082 - 103	1.5174	1.5046	1.5079	1.1	1.5052	1.1	1.4968	0.8	-
Italy	(L)	1574.00	-8.85	300 - 500	1581.00	1570.00	1579.25	-4.0	1589.45	-3.9	1628	-3.4	77.3
Luxembourg	(LFr)	32.9420	-0.017	240 - 600	33.0000	32.8700	32.9695	-1.0	33.027	-1.0	33.127	-0.6	105.8
Netherlands	(Fl)	1.7933	-0.0013	928 - 938	1.7976	1.7884	1.7943	-0.7	1.7951	-0.4	1.7881	0.3	105.1
Norway	(NKr)	6.9557	-0.0049	547 - 567	6.9748	6.9366	6.9602	-0.8	6.9747	-1.1	6.8747	1.2	96.4
Portugal	(Es)	165.550	-0.57	500 - 600	166.200	165.380	167.205	-12.0	169.625	-9.8	173.9	-5.0	93.3
Spain	(Pta)	133.255	-0.12	210 - 300	133.500	132.210	133.67	-3.7	134.395	-3.4	137.065	-2.9	78.9
Sweden	(SKr)	7.6918	-0.0148	880 - 955	7.7249	7.6842	7.7098	-2.8	7.7428	-2.7	7.8906	-2.6	80.5
Switzerland	(SFr)	1.3470	-0.0025	466 - 474	1.3510	1.3435	1.3472	-0.1	1.3459	0.3	1.3351	0.9	105.9
UK	(£)	1.5356	-0.0018	352 - 360	1.5423	1.5320	1.5349	0.5	1.5337	0.5	1.5281	0.5	86.3
Ecu	-	1.1986	+0.0006	983 - 988	1.2036	1.1966	1.1969	1.7	1.1944	1.4	1.208	-0.8	-
SDR†	-	1.43798	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9982	+0.0001	981 - 982	0.9982	0.9980	-	-	-	-	-	-	-
Brazil	(Cr)	2451.77	+46.11	176 - 178	2451.81	2451.76	-	-	-	-	-	-	-
Canada	(C$)	1.3866	-0.002	863 - 868	1.3873	1.3852	1.3887	-1.8	1.3942	-2.2	1.4201	-2.4	82.2
Mexico	(New Peso)	3.3775	+0.005	750 - 800	3.3800	3.3730	3.3785	-0.4	3.3803	-0.3	3.3877	-0.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	96.2
Pacific/Middle East/Africa													
Australia	(A$)	1.3446	-0.0007	441 - 450	1.3466	1.3398	1.3449	-0.3	1.3451	-0.1	1.3488	-0.3	88.7
Hong Kong	(HK$)	7.7287	+0.0005	282 - 292	7.7292	7.7275	7.7282	0.1	7.7307	-0.1	7.7449	-0.2	-
India	(Rs)	31.3675	-0.0013	650 - 700	31.3700	31.3650	31.4475	-3.1	31.5925	-2.9	-	-	-
Japan	(Y)	100.695	-0.58	670 - 720	101.350	100.320	100.5	2.3	100.04	2.6	97.705	3.0	148.4
Malaysia	(M$)	2.5875	-0.0075	870 - 880	2.5995	2.5840	2.58	3.5	2.5765	1.7	2.6075	-0.8	-
New Zealand	(NZ$)	1.6825	+0.0022	818 - 832	1.6871	1.6764	1.6843	-1.3	1.6869	-1.5	1.7106	-1.7	-
Philippines	(Peso)	27.0000	-	000 - 000	27.2000	26.8000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	503 - 506	3.7506	3.7503	3.7511	-0.2	3.7531	-0.3	3.7658	-0.4	-
Singapore	(S$)	1.5287	-	284 - 289	1.5298	1.5267	1.5279	0.6	1.5276	0.3	1.5297	-0.1	-
S Africa (Com.)	(R)	3.6510	-0.0063	485 - 535	3.6585	3.6065	3.6685	-5.1	3.6948	-4.8	3.7715	-3.3	-
S Africa (Fin.)	(R)	4.7250	-0.015	150 - 350	4.7450	4.6950	4.7587	-8.6	4.8175	-7.8	-	-	-
South Korea	(Won)	805.900	-1.35	700 - 100	807.200	805.700	808.9	-4.5	812.4	-3.2	830.9	-3.1	-
Taiwan	(T$)	26.9663	-0.0715	525 - 800	27.0280	26.9525	26.9863	-0.9	27.0263	-0.9	-	-	-
Thailand	(Bt)	25.0300	-0.04	200 - 400	25.0600	25.0200	25.1025	-3.5	25.23	-3.2	25.71	-2.7	-

†SDR rate for Jun 21. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jun 21. Base average 1990=100

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jun 22		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.07	16.63	4.860	2.011	4779	5.445	21.12	502.6	404.5	23.35	4.089	1.977	4.209	3.037	305.7	2.533
Denmark	(DKr)	52.43	10	0.718	2.548	1.054	2505	2.855	11.07	263.5	212.1	12.24	2.144	1.037	2.207	1.592	160.3	1.328
France	(FFr)	60.14	11.47	10	2.922	1.209	2874	3.274	12.70	302.2	243.3	14.04	2.459	1.189	2.531	1.826	183.8	1.523
Germany	(DM)	20.58	3.925	3.422	1	0.414	983.3	1.120	4.345	103.4	83.24	4.805	0.841	0.407	0.866	0.625	62.90	0.521
Ireland	(I£)	49.73	9.486	8.270	2.417	1	2377	2.708	10.50	250.0	201.2	11.61	2.033	0.983	2.093	1.510	152.0	1.260
Italy	(L)	2.093	0.399	0.348	0.102	0.042	100.	0.114	0.442	10.52	8.465	0.489	0.086	0.041	0.088	0.064	6.396	0.053
Netherlands	(Fl)	18.37	3.503	3.054	0.893	0.369	877.6	1	3.878	92.30	74.29	4.288	0.751	0.363	0.773	0.558	56.14	0.465
Norway	(NKr)	47.36	9.033	7.875	2.301	0.952	2263	2.579	10	238.0	191.6	11.06	1.936	0.936	1.993	1.438	144.8	1.199
Portugal	(Es)	19.90	0.795	3.309	0.967	0.400	950.8	1.083	4.201	100.	80.49	4.646	0.814	0.393	0.838	0.604	60.82	0.504
Spain	(Pta)	24.72	4.715	4.111	1.201	0.497	1181	1.346	5.220	124.2	100.	5.772	1.011	0.489	1.041	0.751	75.56	0.626
Sweden	(SKr)	42.83	8.169	7.122	2.081	0.861	2047	2.332	9.043	215.2	173.2	10	1.751	0.847	1.803	1.301	130.9	1.085
Switzerland	(SFr)	24.46	4.665	4.067	1.189	0.492	1169	1.332	5.164	122.9	98.94	0.711	1	0.484	1.029	0.743	74.76	0.618
UK	(£)	50.58	9.647	8.411	2.458	1.017	2417	2.754	10.68	254.2	204.6	11.81	2.068	1	2.129	1.536	154.6	1.281
Canada	(C$)	23.76	4.531	3.951	1.155	0.478	1135	1.294	5.018	119.4	96.10	5.547	0.971	0.470	1	0.721	72.62	0.602
US	($)	32.93	6.281	5.476	1.600	0.662	1574	1.793	6.953	165.5	133.2	7.689	1.346	0.651	1.386	1	100.7	0.834
Japan	(Y)	327.2	62.40	54.40	15.90	6.578	15634	17.81	69.08	1644	1323	76.39	13.38	6.468	13.77	9.935	1000.	8.286
Ecu		39.48	7.531	6.566	1.919	0.794	1887	2.150	8.337	198.4	159.7	9.219	1.614	0.781	1.662	1.199	120.7	1

Yen per 1,000; Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.6270	0.6242	-0.0039	0.6270	0.6228	47,257	62,666
Dec	0.6228	0.6248	-0.0036	0.6235	0.6235	732	2,214
Mar	-	-	-	-	-	-	-

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	1.0044	0.9967	-0.0077	1.0055	0.9938	61,031	69,584
Dec	1.0025	1.0060	-0.0074	1.0068	1.0025	1,149	2,965
Mar	-	-	-	-	-	-	-

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.7455	0.7433	-0.0041	0.7457	0.7404	21,062	48,018
Dec	0.7472	0.7452	-0.0035	0.7472	0.7433	232	1,120
Mar	-	-	-	-	-	-	-

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	1.5402	1.5310	-0.0120	1.5426	1.5306	10,411	39,621
Dec	1.5400	1.5312	-0.0096	1.5400	1.5290	268	518
Mar		1.5300			1.5306	1	17

EMS EUROPEAN CURRENCY UNIT RATES

Jun 22	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Netherlands	2.19672	2.15556	-0.00115	-1.87	6.76	-
Ireland	0.808628	0.795949	+0.00172	-1.57	5.43	11
Belgium	40.2123	39.6013	-0.0085	-1.52	5.38	11
Germany	1.94964	1.92345	-0.00086	-1.34	5.19	-
France	6.53883	6.57770	+0.00414	0.59	3.18	-5
Denmark	7.43679	7.54963	-0.00197	1.52	2.23	-10
Portugal	192.854	199.097	-0.477	3.24	0.62	-22
Spain	154.250	160.075	+0.174	3.78	0.00	-26
NON ERM MEMBERS						
Greece	264.513	290.632	-0.513	9.87	-5.55	-
Italy	1793.19	1893.11	-4.54	5.57	-1.70	-
UK	0.786749	0.782185	+0.001683	-0.58	4.38	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jul	Aug	Sep	PUTS Jul	Aug	Sep
1.450	8.21	8.21	8.33	-	0.08	0.33
1.475	5.84	6.01	6.32	0.04	0.32	0.72
1.500	3.60	4.02	4.51	0.30	0.81	1.33
1.525	1.64	2.45	3.00	0.96	1.66	2.28
1.550	0.72	1.32	1.86	2.35	2.96	3.60
1.575	0.21	0.63	1.09	4.28	4.78	5.28

Previous day's vol., Calls 62,104 Puts 25,895 . Prev. day's open int., Calls 495,236 Puts 403,793

WORLD INTEREST RATES

MONEY RATES

Jun 22	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
■ $ LIBOR FT London Interbank Fixing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			
US Dollar CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			
SDR Linked Ds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			

[illegible]

EURO CURRENCY INTEREST RATES

Jun 22	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.21	94.26	+0.09	94.33	94.21	23,118	55,502
Dec	93.84	93.98	+0.12	93.99	93.84	18,123	39,473
Mar	93.44	93.62	+0.18	93.65	93.44	17,318	35,126
Jun	93.14	93.32	+0.20	93.34	93.14	7,411	25,083

■ THREE MONTH EURODOLLAR (LIFFE) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.82	94.84	-0.02	94.83	94.83	100	2400
Dec	94.10	94.08	-0.01	94.10	94.10	100	1666
Mar	-	93.81	-0.03	-	-	0	1056
Jun	93.54	93.52	-0.02	93.54	93.54	50	304

■ THREE MONTH EUROMARK FUTURES (LIFFE) DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.05	95.09	+0.03	95.10	95.05	30890	193463
Dec	94.78	94.87	+0.09	94.90	94.78	43948	201671
Mar	94.46	94.57	+0.11	94.59	94.46	22661	194518
Jun	94.06	94.17	+0.12	94.23	94.05	11714	103939

■ THREE MONTH EUROLIRA INT. RATE FUTURES (LIFFE) L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	91.27	91.44	+0.18	91.48	91.27	10372	45183
Dec	91.00	91.14	+0.18	91.25	90.89	4622	47689
Mar	90.53	90.70	+0.23	90.76	90.53	2364	12822
Jun	90.01	90.18	+0.21	90.18	90.01	803	9083

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.56	95.62	+0.10	95.65	95.56	5252	31643
Dec	95.24	95.37	+0.11	95.37	95.22	1903	9803
Mar	94.92	95.07	+0.13	95.07	94.89	958	5391
Jun	94.60	94.67	+0.12	94.67	94.62	181	1043

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	93.85	93.89	+0.05	93.90	93.81	1348	12175
Dec	93.55	93.71	+0.09	93.71	93.54	658	9098
Mar	93.30	93.39	+0.11	93.40	93.30	362	3581
Jun	92.94	93.01	+0.08	93.00	92.94	140	226

* LIFFE futures traded on APT

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	94.82	94.84	+0.02	94.86	94.81	129,854	443,026
Dec	94.07	94.11	+0.03	94.11	94.07	273,508	415,607
Mar	93.80	93.84	+0.03	93.85	93.80	134,929	291,148

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	95.81	95.81	-	95.82	95.81	793	3,553
Sep	95.28	95.29	+0.01	95.29	95.26	4,710	34,222
Dec	94.67	94.68	+0.03	94.68	94.67	472	8,443

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Jul	Aug	Sep	Dec	PUTS Jul	Aug	Sep	Dec
9500	0.12	0.18	0.19	0.18	0.03	0.08	0.10	0.31
9525	0.02	0.04	0.08	0.10	0.18	0.20	0.24	0.49
9550	0.01	0.02	0.02	0.08	0.42	0.43	0.44	0.69

Est. vol. total, Calls 8076 Puts 3911. Previous day's open int., Calls 204703 Puts 137187

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
9550	0.25	0.21	0.22	0.15	0.54	[illegible]
9575	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
9600	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Est. vol. total, Calls 10 Puts 0. Previous day's open int., Calls 275 Puts 1025

UK INTEREST RATES

LONDON MONEY RATES

Jun 22	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6 - 4¾	5$\frac{1}{16}$ - 4$\frac{15}{16}$	6 - 4⅞	5$\frac{3}{16}$ - 5⅛	5½ - 5⅜	6$\frac{3}{16}$ - 6$\frac{1}{16}$
Sterling CDs	-	-	5 - 4$\frac{15}{16}$	5$\frac{3}{16}$ - 5$\frac{1}{16}$	5$\frac{15}{32}$ - 5$\frac{3}{8}$	6 - 5$\frac{15}{16}$
Treasury Bills	-	-	4$\frac{15}{16}$ - 4¾	4$\frac{31}{32}$ - 4$\frac{27}{32}$	-	-
Bank Bills	-	-	4⅞ - 4$\frac{13}{16}$	5 - 4$\frac{15}{16}$	5¼ - 5$\frac{3}{16}$	-
Local authority deps.	5¾ - 5⅝	4$\frac{15}{16}$ - 4$\frac{13}{16}$	5 - 4$\frac{15}{16}$	5⅛ - 5$\frac{1}{16}$	5⅜ - 5$\frac{5}{16}$	6$\frac{1}{16}$ - 5$\frac{15}{16}$
Discount Market deps	5⅛ - 4¾	4$\frac{15}{16}$ - 4$\frac{13}{16}$	-	-	-	-

UK clearing bank base lending rate 5¼ per cent from February 8, 1994

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	1½	4	3¾	3¼	3½

Certs of Tax dep. under £100,000 is 1½pc. Deposits withdrawn for cash ½pc.
Ave. tender rate of discount 4.8736pc. ECGD fixed rate Stlg. Export Finance. Make up day May 31, 1994. Agreed rate for period Jun 25, 1994 to Jul 25, 1994, Schemes II & III 6.47pc. Reference rate for period Apr 30, 1994 to May 31, 1994, Schemes IV & V 5.222pc. Finance House Base Rate 5½pc from June 1, 1994

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.30	94.34	+0.04	94.37	94.29	10372	111821
Dec	93.70	93.74	+0.06	93.79	93.68	19197	151470
Mar	92.95	93.01	+0.06	93.08	92.95	8559	63024
Jun	92.30	92.35	+0.05	92.37	92.30	2039	48094

Traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
9425	0.21	0.16	0.09	0.12	0.66	1.33
9450	0.09	0.09	0.05	0.25	0.85	1.54
9475	0.02	0.05	0.03	0.43	1.06	1.77

Est. vol. total, Calls 1593 Puts 6210. Previous day's open int., Calls 182944 Puts 168214

BASE LENDING RATES

	%		%		%
Adam & Company	5.25	Duncan Lawrie	5.25	*Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	8
Allied Trust Bank	5.25	Exeter Bank Limited	6.25	Royal Bk of Scotland	5.25
AIB Bank	5.25	Financial & Gen Bank	6	●Smith & Williamson Secs.	5.25
●Henry Ansbacher	5.25	●Robert Fleming & Co	5.25	TSB	5.25
Bank of Baroda	5.25	Girobank	5.25	●United Bk of Kuwait	5.25
Banco Bilbao Vizcaya	5.25	●Guinness Mahon	5.25	Unity Trust Bank Plc	5.25
Bank of Cyprus	5.25	Habib Bank AG Zurich	5.25	Western Trust	5.25
Bank of Ireland	5.25	●Hambros Bank	5.25	Whiteaway Laidlaw	5.25
Bank of India	5.25	Heritable & Gen Inv Bk.	5.25	Yorkshire Bank	5.25
Bank of Scotland	5.25	●Hill Samuel	5.25		
Barclays Bank	5.25	C. Hoare & Co	5.25		
Brit Bk of Mid East	5.25	Hongkong & Shanghai	5.25		
●Brown Shipley & Co Ltd	5.25	Julian Hodge Bank	5.25		
CL Bank Nederland	5.25	●Leopold Joseph & Sons	5.25		
Citibank NA	5.25	Lloyds Bank	5.25		
Clydesdale Bank	5.25	Meghraj Bank Ltd	5.25		
The Co-operative Bank	5.25	Midland Bank	5.25		
Coutts & Co	5.25	* Mount Banking	6		
Credit Lyonnais	5.25	NatWestminster	5.25		
Cyprus Popular Bank	5.25	●Rea Brothers	5.25		

● Members of British Merchant Banking & Securities Houses Association
* In administration

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jun 22 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Jun 22 / Frs.)

[illegible]

DENMARK (Jun 22 / Kr)

[illegible]

FINLAND (Jun 22 / Mks)

[illegible]

FRANCE (Jun 22 / Frs.)

[illegible]

GERMANY (Jun 22 / Dm.)

[illegible]

ITALY (Jun 22 / Lire)

[illegible]

NETHERLANDS (Jun 22 / Fls.)

[illegible]

NORWAY (Jun 22 / Kroner)

[illegible]

SPAIN (Jun 22 / Pts.)

[illegible]

SWEDEN (Jun 22 / Kronor)

[illegible]

SWITZERLAND (Jun 22 / Frs.)

[illegible]

PACIFIC

JAPAN (Jun 22 / Yen)

[illegible]

AUSTRALIA (Jun 22 / Aust$)

[illegible]

HONG KONG (Jun 22 / H.K.$)

[illegible]

MALAYSIA (Jun 22 / MYR)

[illegible]

SINGAPORE (Jun 22 / S$)

[illegible]

NORTH AMERICA

CANADA

TORONTO (Jun 22 / Can $)

4 pm close

[illegible]

MONTREAL (Jun 22 / Can $)

4 pm close

[illegible]

AFRICA

SOUTH AFRICA (Jun 22 / Rand)

[illegible]

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1994, except Toronto & Montreal (daily). § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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■ TOKYO - MOST ACTIVE STOCKS: Wednesday, June 22, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Mitsubishi Oil	12.8m	1,050		Kawasaki Steel	6.7m	400	+1
Oki Electric	11.5m	779	-7	Toshiba	6.4m	814	-6
Mitsubishi Hvy	10.9m	774	+3	NEC	5.9m	1,230	-10
Hitachi	9.4m	1,020	-20	Fujitsu	5.6m	1,120	
Nippon Steel	8.0m	352	+2	Sagami Railway	5.3m	505	-9

INDICES

[illegible]

US INDICES

[illegible]

■ RATIOS

■ STANDARD AND POORS 500 INDEX FUTURES

■ NEW YORK ACTIVE STOCKS

■ TRADING ACTIVITY

■ CAC-40 STOCK INDEX FUTURES (MATIF)

[illegible]

4 pm close June 22

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1994 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
17⅞	14⅛	AAR	0.48	3.3	491	136	14⅞	14⅝	14⅝	-⅛
16⅞	13¼	A L Labs A	0.16	1.3	32	170	14	13¾	13⅞	
67	57⅞	AMP	1.68	2.5	23	4123	u67⅛	65¾	67⅛	+⅛
72¾	52⅛	AMR			26	1379	58½	57⅞	57⅞	-¼
6	3⅞	ARX			14	1652	4⅜	4⅜	4⅜	
56⅛	38⅞	ASA	2.00	4.4	30	2795	46⅛	45½	45¾	-⅛
21⅞	25⅞	AbbtL	0.76	2.6	17	10169	30¼	29⅝	29⅞	
13¾	11¼	AbitIbi Pr	0.50	4.1	6	3	12⅛	12	12⅛	+⅛
23⅞	17¼	ABM Ind	0.52	2.3		118	22⅞	22¼	22¾	-⅛
13¾	11⅛	Acptncain			24	116	13⅜	13	13⅜	+⅜
31	24½	ACE Ltd	0.44	1.8	4	2125	24⅞	d24⅜	24½	-¼
12½	10⅜	ACM Gvt In	1.09	9.7		1686	11⅜	11½	11¼	
10⅝	7⅞	ACM GvOpp	0.80	9.5		301	8⅝	8⅛	8⅜	+¼
10⅝	8⅞	ACM Gvt Sp	0.96	11.3		352	9¼	8½	8½	-⅛
12	9⅛	ACM Gvt Se	1.08	10.9		153	10⅛	16	16	
11¾	8¾	ACM Man	1.06	10.9		606	9⅞	9¾	9⅞	
9¾	6	ACM Mgd	0.72	0.6		239	8½	8½	8½	
15½	8¾	AcmeCIv	0.44	4.2	12	20	10½	10⅜	10½	
9¾	6½	Acme Elect			5	138	7	6⅞	7	+½
28¾	23	Acordia	0.60	2.1	14	7	28⅝	28½	28½	
9⅞	5¾	Actava	0.80	4.1	2	136	8¾	8½	8⅝	+⅜
15⅞	11¼	Acuson			100	405	14⅛	13¾	13¾	-¼
18⅞	16½	Adams Exp	0.48	2.8	6	229	17⅜	17¼	17⅜	+⅛
64	48½	Ad Micro	3.00	5.6		768	54	52¾	53⅝	+1⅝
21⅛	16¾	AdvMic	3.00	11.7	11	5676	25¾	24⅞	25¾	+1
6⅞	8	Advest Grp	0.18	2.0	8	2	5½	5½	5½	
20	16⅛	Advo Inc	0.16	0.8	108	205	16⅝	16¼	16⅛	
57¼	48⅞	Aegon ADR	2.95	5.6	11	68	52½	51⅞	52½	+1½
65¾	48¾	AetnaL	2.70	4.9	6	2636	56¾	55⅞	56⅝	+⅝
34⅞	25¼	Aflac	0.40	1.4	14	3705	33	32¾	33	+¼
20¼	16⅞	Ahmnsn	0.88	4.6	13	1592	19⅜	18	19¼	+¼
4	1⅞	Aileen Inc			1	65	2	1⅞	2	
40⅞	38⅞	AirPrC	0.00	2.3	23	1679	42⅞	42⅜	42⅝	+½
39⅞	21½	Airtran Frt	0.30	0.9	20	675	35½	34½	34½	-¼
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

1994 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
40¼	34⅞	BectnD	0.74	1.8	14	1472	[illegible]	[illegible]	[illegible]	[illegible]
7¾	5	BellPr	0.36	5.2	3	3	[illegible]	[illegible]	[illegible]	[illegible]
59⅝	49	BellAtl	2.76	8.9	18	4256	[illegible]	[illegible]	[illegible]	[illegible]
19¾	14½	Bell In	0.40	2.3	13	65	[illegible]	[illegible]	[illegible]	[illegible]
63½	53	BellSth	2.76	4.5	29	2735	[illegible]	[illegible]	[illegible]	[illegible]
65	45½	Belo A	0.60	1.3	21	93	[illegible]	[illegible]	[illegible]	[illegible]
25⅛	20½	Bemis	0.54	2.4	25	766	[illegible]	[illegible]	[illegible]	[illegible]
69	57¼	Benef 4.3P	4.30	7.1		21	[illegible]	[illegible]	[illegible]	[illegible]
40⅞	34½	Benef	1.52	4.0	12	1373	[illegible]	[illegible]	[illegible]	[illegible]
38⅞	29¼	Benetton A x	0.47	1.5	19	386	[illegible]	[illegible]	[illegible]	[illegible]
1⅛		Benguet B	0.04	4.6	4	534	[illegible]	[illegible]	[illegible]	[illegible]
19⅞	14⅞	BergBr	0.40	2.8	22	117	[illegible]	[illegible]	[illegible]	[illegible]
18850	15100	BerkH			44	1	[illegible]	[illegible]	[illegible]	[illegible]
10⅞	8	Berry Petr 4	0.40	4.0	169	201	[illegible]	[illegible]	[illegible]	[illegible]
37⅞	19	Best Buy			17	3829	[illegible]	[illegible]	[illegible]	[illegible]
28⅛	26⅝	Beth St 2	2.50	8.1		41	[illegible]	[illegible]	[illegible]	[illegible]
55⅝	31½	Bethlhm Pf	5.00	9.3		11	[illegible]	[illegible]	[illegible]	[illegible]
24⅛	16¾	BethSt	0.40	9.0	7	3915	[illegible]	[illegible]	[illegible]	[illegible]
53⅝	42⅝	Betz L	1.44	3.3	26	200	[illegible]	[illegible]	[illegible]	[illegible]
16⅛	12⅞	BevEnt			20	2109	[illegible]	[illegible]	[illegible]	[illegible]
21¾	13⅞	BiocraftR	0.16	0.8	24	394	[illegible]	[illegible]	[illegible]	[illegible]
32⅝	22	Birmingm S	0.40	1.4	24	1025	[illegible]	[illegible]	[illegible]	[illegible]
22⅞	16½	BlDeck x	0.40	2.3	17	3807	[illegible]	[illegible]	[illegible]	[illegible]
22¾	19⅞	Black H PL	1.32	6.7	11	425	[illegible]	[illegible]	[illegible]	[illegible]
10⅝	8½	BlckrckAdv x	0.73	7.6		44	[illegible]	[illegible]	[illegible]	[illegible]
8½	6⅝	Blckrckinc x	0.75	10.6		979	[illegible]	[illegible]	[illegible]	[illegible]
10⅛	8⅝	BlckrckTgt x	0.70	7.7		724	[illegible]	[illegible]	[illegible]	[illegible]
48⅞	38½	Block	1.12	2.7	24	3380	[illegible]	[illegible]	[illegible]	[illegible]
31⅞	23⅞	Blockb x	0.16	0.4	24	6358	[illegible]	[illegible]	[illegible]	[illegible]
8⅝	6⅝	Blue Chip	0.12	1.7		75	[illegible]	[illegible]	[illegible]	[illegible]
28¾	19½	BMC Ind			16	100	[illegible]	[illegible]	[illegible]	[illegible]
50⅛	42⅛	Boeing	1.00	2.1	13	11512	[illegible]	[illegible]	[illegible]	[illegible]
27¾	19	BoiseC	0.60	2.5	6	747	[illegible]	[illegible]	[illegible]	[illegible]
21⅛	10⅛	Bolt B & N	0.08	6.5	30	396	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- B -

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- R -

- S -

Continued on next page

4 pm close June 22

NYSE COMPOSITE PRICES

1994 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chg'ge Prev. Close
Continued from previous page										
18½	13⅝	SftyKl x	0.36	2.1	10	2742	17⅝	17⅜	17½	
27	19¾	Safeway			84	979	24⅞	24½	24¾	+⅛
6⅞	4⅜	SafewayW96				627	5⅞	5¾	5¾	+⅛
57⅞	50¼	StJoePaper x	0.20	0.4	278	91	53¼	52⅞	52⅞	-⅛
30¼	26½	StJosL&P	1.80	6.5	13	22	27¾	27½	27½	
45	37¾	StPaul	1.50	3.8	3	1452	39⅜	39	39⅛	+⅛
9⅛	6⅛	Salant Crp			6	37	6¾	6⅝	6⅝	+⅛
49⅞	37¾	Sallie Mae	1.40	3.6	7	2764	38⅞	38½	38⅝	
13⅞	11⅞	Salomon Br	0.28	2.2		792	12½	12⅜	12½	+⅛
52¾	44¾	Salomn x	0.64	1.3	6	2916	49⅝	49	49½	+¾
25	17⅝	SnDgGE	1.52	8.4	9	2883	18⅛	17⅞	18⅛	+⅛
16	7½	SantaFeERs	0.18	1.6	10	782	9¾	9⅝	9¾	+⅛
40	34½	SantaFePac	2.80	8.1	16	84	34¾	d34½	34⅝	
26¼	16¾	SanFeP	0.10	0.5	12	3771	21⅞	21⅝	21¾	-⅛
26	20⅛	SaraLee	0.64	2.9	14	6651	22⅜	21⅞	21⅞	-⅛
50¾	42¼	Scana Corp	2.82	6.5	11	272	43¾	43⅝	43⅝	-⅛
28½	13½	Scecrp	1.00	7.3	9	15018	13¾	d13½	13⅝	+⅛
40½	33⅝	SchererRP			26	799	34½	33⅞	34½	+½
69⅞	54½	SchrPl	2.04	3.8	14	4809	64⅛	62⅝	62⅞	-⅞
67½	50¾	Schlmb	1.20	2.0	25	13136	61⅜	60½	61	+1
33⅞	25¼	Schwab(C)	0.20	1.0	12	2193	27¼	26½	26⅞	+⅛
10¾	6⅛	Schweitzer			21	206	7½	7½	7½	-⅛
38⅜	24⅞	SciAtl	0.12	0.4	66	2835	35⅛	34	34¼	-¾
16⅞	13¼	Scotman	0.10	0.7	13	66	14⅜	14¼	14⅜	+⅛
53¾	37¼	ScottP	0.80	1.5	13	4615	53⅛	52¾	52⅞	+¾
20⅜	19⅝	ScudrNAsF	0.21	0.9		147	23⅛	22⅝	23	+⅛
12¾	9⅝	ScudderNEuF	0.18	1.6		170	10	9⅞	10	+⅛
[illegible]										

NASDAQ NATIONAL MARKET

4 pm close June 22

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
[illegible]							

AMEX COMPOSITE PRICES

4 pm close June 22

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							
Xytronix			4	162	4	d3½	3 15/16	+5/16

AMERICA

Dollar recovery, bond rally end equity slide

Wall Street

US stocks ended a three-day slide yesterday morning as investors responded to a modest recovery by the dollar and a subsequent bond rally, *writes Frank McGurty in New York.*

By 1 pm, the Dow Jones Industrial Average was 16.80 higher at 3,724.77, after dropping more than 103 points since last Friday morning. The more broadly based Standard & Poor's 500 was 1.88 better at 453.22 in moderate trading.

In the secondary markets, the American SE composite was up 1.52 at 433.39. The Nasdaq composite, badly hurt in the previous session by a sell-off in computer-related issues, recovered 3.77 to 712.56.

The dollar again set the direction for stocks. Yesterday the tone was positive, as the US currency moved above Y100, a day after dropping below that mark for the first time.

The bond market, concerned about the likelihood of an early move to higher interest rates to support the dollar, was relieved. Treasuries staged a solid rally after a long slump.

Meanwhile, investors were casting an eye toward Capitol Hill to glean hints about monetary policy from Mr Alan Greenspan's congressional testimony. The Federal Reserve chairman said that he had no fixed target for economic growth.

His remarks coincided with the release of the Fed's Beige Book summary of economic conditions which found a moderation in growth and no reason to be concerned about inflation.

A profits warning issued by Sun, the energy group, called attention again to the impact of higher rates on corporate earnings. After the group said that it expected to break even in the second quarter, its share price was marked down $⅞ to $26⅝.

Tesoro Petroleum made a rare appearance on the NYSE'e most active list after filing for an offering of new 5.35m common shares priced at $10⅝. The stock added $⅝ to $11¼ in heavy volume of nearly 1.2m shares.

The previous session's three big losers stablised yesterday: Caterpillar gained $⅝ to $102½ after plunging $4¼ a day earlier. But SG Warburg downgraded the issue, citing risks related to a strike being staged by the United Auto Workers.

Ouaker Oats limped $⅛ ahead to $73⅝. Its share price went into a $8¼ tailspin after Nestlé deflated investors' hopes that it would launch a takeover bid for the food group.

Lotus Development, whose profits warning had prompted Tuesday's flight from technology issues, dipped $⅛ to $36¼, adding to a 28 per cent decline in the previous session.

However, relative calm returned to the sector, and several leading stocks rebounded smartly. On the Big Board, Compaq climbed $1 to $32⅞ and Micron Technology recovered $1 to $32⅝.

Silicon Graphics gained $2⅝ to $21⅞ after agreeing to form a product development venture with AT & T Network Systems.

Canada

Toronto fielded a reaction in August gold on Comex, off US$4.30 at US$392.00 per ounce. Gold shares held back a fledgling recovery, and the TSE 300 composite index was 1.96 softer at 4,045.59 at noon in volume of 27.99m shares valued at C$388.6m.

Declines led advances by 332 to 256, with 273 issues unchanged. Toronto'e gold subindex fell by 2 per cent, while upward momentum was concentrated in financial services and forest products.

Placer Dome was off C$1 at C$30⅝, while American Barrick fell C$⅛ to C$33⅞. Active issues included Falconbridge, which traded at C$17⅞ in 5.2m shares after being listed yesterday at C$18½ in an initial public offering. The company said that poor nickel prices were to blame for its weak performance.

Brazil

São Paulo had improved 1.3 per cent by midsession, helped by the recovery of the dollar on the foreign exchange markets.

The Bovespa index was up 408 at 31,692 after an earlier high of 32,338. Turnover was about Cr91.6bn ($37.4m).

Most of the activity was seen in major blue chips, with Telebras preferred up 4.2 per cent at Cr91.2, Electrobras preferred ahead 4.1 per cent and Vale do Rio Doce up 5.8 per cent.

S Africa eases on 'neutral' budget proposals

The budget had little effect on the country's financial markets, the initial reaction being that it was broadly "neutral". Among the proposals was a 5 percentage-point cut in corporation tax to 35 per cent.

Brokers reported that gold stocks were aided in the afternoon session by a further advance in the price of bullion. The overall index receded 15 to 5,706, industrials declined 11 to 6,583 and the gold shares index dipped 2 to 2,243.

Remgro, which had lost ground recently on fears that the budget might contain proposals lifting cigarette and alcohol taxes, improved 75 cents to R28.25.

Among gold issues, both Vaal Reefs and Kloof lost R1, to R56.75 and R429 respectively.

De Beers relinquished R1.25 at R113.75 on rumours that negotiations with Russia concerning the sale of diamonds had been called off. Barlows finished 25 cents softer at R35.25.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

		Dollar terms			Local currency terms		
Market	No. of stocks	June 17 1994	% Change over week	% Change on Dec '93	June 17 1994	% Change over week	% Change on Dec '93
Latin America	(210)	612.05	-2.5	-5.9			
Argentina	(25)	889.84	-4.0	-10.5	546,029.37	-4.0	-10.5
Brazil	(57)	264.44	-1.8	+13.6	834,084,808.2	+7.5	+720.8
Chile	(25)	675.91	-0.2	+22.5	1,139.56	-0.4	+19.5
Colombia[1]	(11)	933.48	+2.7	+44.8	1,377.46	+2.1	+48.6
Mexico	(69)	841.66	-3.2	-16.4	1,222.46	-3.0	-9.4
Peru[2]	(11)	150.05	+0.2	+24.1	200.02	-0.1	+25.6
Venezuela[3]	(12)	549.82	-4.6	-7.1	2,152.51	-1.8	+51.4
Asia	(558)	250.51	+2.3	-13.9			
China[4]	(18)	94.35	-1.5	-36.8	103.21	-1.6	-37.1
South Korea[5]	(156)	126.47	-0.2	+7.0	133.53	-0.6	+6.4
Philippines	(18)	290.18	-2.1	-14.8	372.31	-3.2	-16.2
Taiwan, China[6]	(90)	137.43	+3.9	+1.8	139.61	+3.8	+4.4
India[7]	(76)	135.81	+1.6	+16.6	150.19	+1.8	+16.6
Indonesia[8]	(37)	102.29	-1.3	-18.0	120.44	-1.2	-15.4
Malaysia	(105)	275.77	+4.0	-18.7	263.94	+3.9	-21.7
Pakistan[9]	(15)	379.80	+7.3	-2.2	527.69	+7.3	-0.1
Sri Lanka[10]	(5)	160.89	-6.9	-9.2	173.26	-7.0	-9.5
Thailand	(55)	385.63	-0.7	-19.3	385.55	-1.0	-20.2
Euro/Mid East	(125)	109.16	+7.9	-35.5			
Greece	(25)	211.43	+4.1	-7.1	348.31	+1.1	-9.4
Hungary[11]	(5)	180.27	-0.5	+8.2	224.49	-1.5	+11.2
Jordan	(13)	161.09	-0.8	-2.7	232.30	-0.9	-3.0
Poland[12]	(12)	520.12	-11.7	-36.4	745.79	+12.1	-32.5
Portugal	(25)	109.39	-1.9	-3.9	126.04	-5.2	-8.8
Turkey[13]	(40)	107.61	+20.7	-49.4	1,567.36	+16.2	+7.7
Zimbabwe[14]	(5)	279.27	+0.3	+38.2	328.98	+0.1	+54.0
Composite	(892)	319.23	+0.3	-11.9			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Aug 4 1989; (14)July 2 1993.

The Chinese equity market has been one of this year's disappointments, reflected in a 37 per cent fall in dollar terms. Both the Shanghai and Shenzhen B markets – which trade in stocks available to foreign investors – have slipped back to the levels seen at the start of 1993, while H stocks, traded in Hong Kong, are down almost 40 per cent so far this year.

James Capel Asia has identified a number of reasons, some of them, in its view, misguided, why the investment community has been fighting shy of China: the effect on earnings per share growth of a depreciating local currency; the fear that a tax advantage currently available to companies with B shares will be removed; and the perception that the level of company disclosure is below average.

Dealing in the H stocks has become the preferred method of gaining exposure to China, given that the Hong Kong market is itself well established and regulated. A new tranche of 22 H stocks, estimated to raise a total of HK$48bn, is due to be listed in Hong Kong and New York before the end of the year.

EUROPE

Bourses recover on better news from US

The news from America was better. Mr Stanley Fischer, the future IMF deputy managing director, said the world economy was "in great shape"; Mr Alan Greenspan, Federal Reserve chairman, made the requisite noises about domestic inflation as he testified in Congress to the House Budget Committee; and President Clinton raised hopes by saying that a statement on the dollar would be forthcoming later in the day.

In Europe, bonds responded, equities followed and short-covering did the rest, *writes Our Markets Staff.*

FRANKFURT regained Tuesday afternoon's losses, rose further to close the session with the Dax index at 1,994.42, and climbed again in the post-bourse to 2,004.93, up 47.85, or 2.4 per cent, over 24 hours.

Ms Barbara Altmann of B Metzler in Frankfurt said the recovery started in the bond market, encouraged by Tuesday's M3 figures which were lower than generally expected and by yesterday's further cut in the repo rate, 5 basis points to 5.00 per cent.

Germany has high long bond yields and a reducing inflation rate, said Ms Altmann, indicating high real yields on the longs and, potentially, a profitable switch from short-dated instruments.

In that context the chances for equities, after a Dax fall from nearly 2,300 in mid-May to just above 1,950 this week, were better than the risks, she maintained.

Financials, however, were weak, looking at the prospect of end-June figures based on bond trading performance to date. Deutsche Bank fell a further DM7 to DM686.50 and Allianz DM17 to DM2,285.

Turnover edged up from DM8.3bn to DM8.5bn. The best rise of the day came from Deckel Maho, up DM5.70, or 20 per cent, to DM34.20 on talk of a rescne plan for the ailing machine tool maker.

MILAN's strong rebound surprised most observers, although the equity market took its more positive outlook mainly from strength in bonds. Sentiment was also helped by expectations that the government would make an announcement today on proposals to restrict growth in this year's budget deficit.

The Comit index improved 13.00 to 691.63.

There were gains across the board, with no specific stories predominating; but the good rises were seen especially in the industrial sector. One of the day's best performers was Montedison, up L86 at L1,473.

PARIS made gains in line with the more optimistic picture throughout the Continent.

The CAC-40 index advanced 26.26, or 1.4 per cent, to 1,917.04, but brokers cautioned against reading too much into the rise as sentiment remained edgy.

Peugeot gained FFr8 at FFr783, although the vehicle manufacturer forecast a slowdown in market growth during the rest of the year.

Skis Rossignol put on FFr95 to FFr1,940 as it said that it expected to cut its debt burden this year, and forecast a rise in turnover.

Eurotunnel ended up FFr1.15 at FFr25 with the group due to announce the take up of its rights issue by the weekend.

ZURICH was among the best bourseperformers with a rise of 2 per cent, the SMI index ending 51.5 higher at 2,595.7. The recovery was led by banks, UBS rising SFr33 to SFr1,119, CS Holding by SFr21 to SFr539 and SBC by SFr16 to SFr389.

Pharmaceuticals also gained with Roche certificates rising SFr55 to SFr6,405.

However, the recovery was said to be vulnerable. Volume was low and dealers said that the gains were too fragile to lay the basis for a new upward trend.

AMSTERDAM needed little encouragement to break out of the downward trend experienced for more than a week and, drawing inspiration from bonds, the AEX index gained 6.05, or 1.6 per cent, at 382.74.

KLM added 10 cents at Fl 45.70, the stock having been upgraded recently to a buy by Paribas Capital Markets. In explanation Mr Chris Avery, the analyst, said the airline's results for the year to March had confirmed its recovery story, even though it had benefited from a pension holiday. He added that Northwest, in which KLM has a 20 per cent stake, was now making a positive contribution to the group.

MADRID's technical recovery, tentative for such a volatile market, left the general index just above the 300 mark again with a rise of 3.78, or 1.3 per cent to 300.76. A reduction in block trades left turnover considersbly lower than in recent days at Pta34bn.

Utilities were relatively strong, Iberdrola recovaring Pta25, or 2.7 per cent to Pta950 after recent losses aggregating around 10 per cent. Banks were mixed, even after some late buying interest.

ISTANBUL fell 2.4 per cent on profit-taking following the market's recent strong run last week when it gained more than 20 per cent in dollar terms. The composite index lost 490.58 to 19,703.93, after an early high of 20,402.14.

FT-SE Actuaries Share Indices

THE EUROPEAN SERIES

Jun 22 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1319.39	1318.39	1315.29	1318.04	1317.88	1323.37	1324.92	1322.90
FT-SE Eurotrack 200	1355.10	1353.87	1350.72	1351.01	1353.34	1354.87	1358.24	1357.37

	Jun 21	Jun 20	Jun 17	Jun 16	Jun 15
FT-SE Eurotrack 100	1303.46	1308.43	1330.34	1355.76	1378.41
FT-SE Eurotrack 200	1345.33	1351.80	1369.87	1398.07	1409.06

Base 1000 (26/10/90); High/day: 100 - 1324.37; 200 - 1359.37 Low/day: 100 - 1314.97 200 - 1350.27

Written and edited by William Cochrane, John Pitt and Jyoti Jeetun

ASIA PACIFIC

Nikkei weaker on dollar's low against yen

Tokyo

The rise of the yen, and the fall in the dollar to a new post-war record low of Y99.85 late on Tuesday in New York took Japanese equities to their third successive decline yesterday, *writes Our Markets Staff.*

The Nikkei 225 average ended 231.84, or 1.1 per cent, lower at 20,581.32 in rising activity, volume climbing from 318m shares to an estimated 500m. Brokers said there was heavy arbitrage selling, but that the Bank of Japan's active intervention in the currency markets, in support of the dollar, had invited buying on the dips in equities.

This "bottom-fishing" allowed the index to close well off the day's low of 20,371.37, although it also registered a high of 20,742.65 in the process.

The broad market was also weak, the Topix index of all first section stocks closing 15.00 down at 1,648.97. Declines led advances by 887 to 152, with 115 issues unchanged.

The Nikkei 300 fell 2.24 to 299.28 and the second section index shed 22.44 to 2,407.27 in 17.15m shares, but later in London the ISE/Nikkei 50 index finished 3.43 up at 1,346.99.

Japanese equities had risen this year on hopes that the economy would improve dramatically, said an analyst at a Big Four brokerage; but this scenario was formed on estimates that the dollar would stay at around Y105. Many companies would be forced into downward earnings forecast revisions if the yen stayed around Y100.

Failing a recovery in the dollar, said brokers, the Nikkei 225 could fall to 20,000. Foreign investors were net sellers of Japanese stocks yesterday, and it took active domestic buying linked to the launch of new investment trusts and other institutional invastment requirements to prevent equities from falling further.

The key declines were in the transportation, rolling stock, fishery and steel sectors. Also, many high-technology issues were weaker as investors sold off exporters' shares on a higher yen. Oki Electric dipped Y7 to Y779 and Sony, in spite of its legal victory in the George Michael case in England, fell Y90 to Y6,070.

Mitsubishi Oil, which performed well on Monday and Tuesday, closed unchanged at Y1,050: it announced on Monday that it had drilled a successful test well yielding 10,346 barrels per day of oil off the coast of Vietnam.

Roundup

Interest rate uncertainties remained, but the region offered indications of recovery. Colombo was closed for a holiday.

PAKISTAN climbed on bullish sentiment in blue chips, as institutions moved in before the close of corporate books on June 30.

The KSE 100 index rose 38.21, or 1.65 per cent, to 2,348.70.

Higher cement prices, and privatisation in the fuel and energy sector, took constituent stocks into an uptrend.

SYDNEY rose for the first time in a week on a steadier bond market and an advance in the gold price. The All Ordinaries index was ahead 17.3 at 2,010.9, after slipping to 1,988.1.

Industrials, resources and golds were strong performers, the golds index putting on 35.1 at 2,259.1 after the rise in the bullion price on Tuesday night.

HONG KONG overcame overseas selling and negative sentiment to end modestly higher. The Hang Seng index closed 19.06 better at 8,876.84 after falling below the 8,800 level in the early morning. Turnover was a light HK$2.57bn.

Uncertainties about US interest rates and gloomy financial markets worldwide kept foreign investors at bay.

SINGAPORE was mixed. It featured a strong rebound in Malaysian shares traded over the counter, but the Straits Times Industrial index, composed of domestic blue chips, ended 6.57 easier at 2,255.30.

Brokers said Malaysian OTC stocks benefited from bargain hunting, and from rumours that a date for Malaysia's general election would be announced this week.

BANGKOK finished 1.3 per cent down in moderate trade, with stocks falling across the board. The communications sector was the biggest loser, while the finance group was the most active.

NEW ZEALAND tested its 2,012.82 low for 1994, the NZSE-40 index bottoming at 2,017.9 before ending 14.21 down at 2,029.53. Turnover was healthy at NZ$51.6m.

TAIPEI was mixed in thin trade. The weighted index edged forward 8.64 to 5,957.61 as turnover shrank to T$40.6bn from Tuesday's T$46.7bn.

United Microelectronics continued its run of strength with a rise of T$3 to T$128.50.

SEOUL ended fractionally lower, fearing that the South Korean central bank was about to cap money supply which would result in heavy institutional selling. The composite index dipped 0.44 to 936.39.

MANILA broke a nine-day slide as the composite index firmed 1.36 to 2,815.95, but the market was still subdued by global concern over the possible rise in US interest rates. Volume eased to 1.15bn shares.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY JUNE 21 1994 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY JUNE 20 1994 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (69)	168.91	-0.8	162.88	108.08	140.59	151.13	-1.6	3.66	170.34	164.06	109.80	141.57	153.54	189.15	130.19	136.81
Austria (17)	179.32	-1.7	172.92	114.74	149.25	149.18	-1.6	1.07	182.46	175.72	117.61	151.64	151.61	195.41	142.90	145.21
Belgium (37)	165.90	-0.8	159.97	106.16	138.08	134.84	-1.0	4.10	167.50	161.31	107.96	139.21	136.16	176.67	142.02	142.42
Canada (106)	123.22	-0.2	118.82	78.84	102.55	123.90	-0.7	2.74	123.53	118.97	79.62	102.66	124.81	145.31	121.46	129.70
Denmark (33)	252.31	-0.3	243.29	161.44	209.99	215.76	-0.1	1.37	253.12	243.78	163.16	210.37	216.03	275.79	207.56	214.69
Finland (24)	139.98	-1.2	134.98	89.57	116.50	156.51	-1.6	0.91	141.70	136.47	91.33	117.76	158.99	166.72	85.54	87.71
France (97)	160.75	-0.7	155.00	102.85	133.79	137.97	-0.8	3.25	161.92	155.95	104.37	134.57	138.77	185.37	149.60	151.64
Germany (58)	132.72	0.5	127.97	84.92	110.46	110.46	0.6	1.87	132.08	127.20	85.13	109.77	109.77	147.07	107.59	109.34
Hong Kong (56)	361.15	-1.6	348.25	231.09	300.59	358.33	-1.6	3.31	367.17	353.62	236.67	305.16	364.31	506.56	271.42	285.01
Ireland (14)	185.71	-0.2	179.07	118.83	154.57	173.12	-0.1	3.52	186.12	179.25	119.97	154.69	173.32	209.33	156.93	158.37
Italy (60)	81.45	1.4	78.54	52.12	67.79	96.18	1.3	1.67	80.33	77.36	51.78	66.76	94.92	87.78	57.88	66.10
Japan (468)	164.14	-0.6	158.28	105.03	136.61	105.03	-1.6	0.73	165.05	158.96	106.39	137.16	106.39	166.34	124.54	136.69
Malaysia (98)	473.72	-2.3	456.80	303.12	394.28	473.45	-2.3	1.72	484.93	467.04	312.57	403.03	484.65	621.88	312.51	335.39
Mexico (18)	1941.52	-1.7	1872.15	1242.29	1615.90	7158.99	-1.5	1.09	1975.59	1902.80	1273.35	1641.84	7267.12	2647.06	1481.06	1514.02
Netherland (27)	194.56	-1.3	187.62	124.49	161.94	159.36	-1.2	3.56	197.19	189.91	127.10	163.89	161.33	207.43	164.22	166.14
New Zealand (14)	67.45	-1.6	65.05	43.18	56.14	60.19	-1.5	3.97	68.53	66.00	44.17	56.95	61.12	77.59	48.80	49.30
Norway (23)	177.53	-1.4	171.18	113.59	147.75	167.72	-1.2	1.97	180.04	173.40	116.05	149.63	169.83	206.42	150.61	151.12
Singapore (44)	338.65	-0.7	326.55	216.69	281.86	238.57	-0.8	1.77	340.97	328.39	219.78	283.39	240.02	378.92	242.45	247.88
South Africa (59)	283.42	-0.2	273.30	181.35	235.89	293.63	0.1	2.16	283.94	273.46	183.02	235.98	293.24	284.68	175.93	194.71
Spain (42)	133.65	-2.0	128.88	85.52	111.24	135.04	-2.0	4.28	136.44	131.40	87.94	113.39	137.81	156.78	116.33	128.48
Sweden (36)	203.35	-1.0	196.09	130.12	169.25	232.00	-1.1	1.73	205.37	197.80	132.38	170.69	234.63	231.35	163.85	170.56
Switzerland (47)	155.05	-0.1	149.51	99.21	129.05	129.72	-0.1	1.87	155.28	149.54	100.08	129.05	129.76	176.56	124.46	125.69
United Kingdom (205)	184.56	-1.1	177.99	118.11	153.63	177.99	-0.8	4.22	186.54	179.66	120.24	155.04	179.66	214.96	170.32	175.31
USA (519)	184.04	-0.8	177.47	117.76	153.18	184.04	-0.8	2.82	185.66	178.81	119.67	154.30	185.66	196.04	178.96	182.27
EUROPE (720)	160.59	-0.6	154.85	102.75	133.63	148.48	-0.5	3.18	161.61	155.64	104.17	134.31	147.27	178.58	141.58	143.18
Nordic (116)	197.70	-0.8	190.64	126.50	164.54	194.71	-0.9	1.53	199.46	192.10	128.56	165.77	196.58	220.60	155.82	160.48
Pacific Basin (750)	171.20	-0.7	165.09	109.55	142.49	114.29	-1.3	1.05	172.38	166.02	111.11	143.27	115.63	173.75	134.79	141.32
Euro-Pacific (1470)	166.61	-0.7	160.66	106.61	138.67	127.60	-1.0	1.91	167.72	161.53	108.11	139.39	128.91	170.76	141.98	141.86
North America (625)	180.27	-0.8	173.83	115.35	150.04	179.93	-0.8	2.91	181.31	175.10	117.18	151.10	181.50	192.73	175.87	179.01
Europe Ex. UK (515)	144.12	-0.4	138.97	92.22	119.95	127.49	-0.3	2.56	144.67	139.33	93.25	120.23	127.87	157.47	122.37	123.41
Pacific Ex. Japan (281)	242.51	-1.4	233.85	155.18	201.85	216.83	-1.6	2.95	246.08	237.00	158.61	204.52	220.56	296.21	182.38	186.79
World Ex. US (1653)	167.58	-0.7	161.60	107.23	139.46	130.90	-1.0	1.93	168.69	162.47	108.73	140.20	132.21	172.51	142.94	142.94
World Ex. UK (1967)	170.61	-0.7	164.71	109.29	142.16	144.32	-0.9	2.08	172.02	165.67	110.88	142.96	145.70	176.58	153.22	153.22
World Ex. So. Af. (2113)	171.38	-0.7	165.23	109.64	142.62	146.40	-1.0	2.28	172.63	166.26	111.27	143.47	147.82	178.56	155.00	155.00
World Ex. Japan (1703)	178.56	-0.8	172.18	114.25	148.61	171.45	-0.8	2.88	180.03	173.38	116.04	149.62	172.83	193.20	166.72	166.66
The World Index (2172)	172.05	-0.7	165.90	110.09	143.18	147.48	-0.9	2.29	173.32	166.92	111.71	144.04	148.89	178.97	156.17	155.17

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■ An antipathy - as well as an affinity - to the Japanese
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Thursday June 23 1994

Seoul tries to throw open the doors

South Korea is striving to overcome its legacy of isolationism and to push for economic liberalisation. But it is a hard struggle, writes John Burton

In his second year in office, President Kim Young-sam is struggling against South Korea's traditional isolationist attitude toward the outside world.

He is trying to open his country's economy to full international competition for the first time in its history.

But bureaucratic resistance and public doubts about the benefits of increased foreign economic influence on Korea could undermine Mr Kim's latest crusade to "internationalise" the country, which follows his successful political reform programme last year.

Moreover, the campaign for domestic economic reforms has been overshadowed in recent weeks by the North Korean nuclear dispute, whose origins lie in the xenophobic nationalist doctrine preached by Pyongyang.

The challenges confronting Mr Kim reflect the fact that Korea has never completely escaped from the legacy of the Hermit Kingdom, when the country went into self-imposed isolation almost 400 years ago in response to repeated invasions by the Japanese and Manchus. It was one of the last countries in the world to establish contacts with the west in the late 19th century.

Subsequent colonial exploitation by Japan during the first half of this century re-enforced a defensive mentality among Koreans that still exists today.

The clearest example of this can be seen in North Korea, which has adopted *juche* (self-reliance) as its guiding principle. But the Korean peninsula's tragic history has also produced considerable psychological resistance in South Korea to accepting the full rigours of the modern global trading system in spite of the considerable benefits that the country has reaped from it.

One recent survey found that almost half of South Koreans opposed direct foreign investment in the country, while two-thirds were against the lowering of trade barriers.

But Mr Kim has tried to turn the historical record to his advantage in persuading Koreans to accept foreign competition. "A century ago, we failed to internationalise on our initiative and were thus forced by others to open up our country. This was why Korea remained backward, soon to be reduced to a colony of a foreign power (Japan)," said Mr Kim in e speech on the first anniversary of his inauguration in February.

"We must learn the lessons of history. Instead of deploring the fact that our doors are unlocking, we should ourselves throw open our doors and march out into the wider world," he urged.

Several opportune factors support Mr Kim's push for economic liberalisation. The economy is once again booming after two years of the slowest growth since 1980. The GNP growth rate is expected to exceed 7 per cent this year as exports increase due to a weak Korean won and industrial investments grow in response of overseas demand.

Labour disputes, which have disrupted industrial production in the past several years, are on the wane as living standards rapidly improve. Wage negotiations are being settled at an unprecedented rate this year, although troubles may still lurk in the car and shipbuilding sectors, two of Korea's main export industries.

Mr Kim and his Democratic Liberal party enjoy e solid political position with a secure parliamentary majority. The opposition is in disarray, with the Democratic party failing to reinvigorate itself under the somewhat hapless leadership of Mr Li Ki-taek.

The president does not have to worry about immediate electoral considerations since the next parliamentary elections will not occur until 1996, one year before his mandatory single term ends.

This should give the Kim administration enough time to lay the foundation for its economic reforms and make South Korea eligible to join the Organisation for Economic Co-operation and Development by its desired deadline of 1996.

The government wants to reduce strong state intervention in the economy. The myriad barriers to foreign investment and goods are gradually being lowered as Korea seeks technology and capital from abroad to improve its global performance.

Korea neglected research and development as it concentrated on building an impressive industrial base. The country consequently needs foreign technology if it is to achieve its goal of becoming an advanced industrial power. It is now actively seeking foreign partners as it builds high-speed rail systems, advanced telecommunications networks and an indigenous defence industry.

Korea is also overhauling its antiquated and tightly regulated financial system that has created distortions in economic development, particularly at the expense of small businesses, and prevented large industrial concerns from obtaining cheaper credit abroad.

The government argues that the reforms will make the economy more efficient as it switches from governance by bureaucrats to market forces. Foreign competition in the home market will help to improve the performance of the large conglomerates, or chaebols, as they increase their operations abroad.

It has even used the "Visit Korea 1994" campaign primarily as a means to encourage Koreans to accept internationalisation by playing host to foreign visitors.

But Mr Kim is already discovering that he lacks the public support for trade liberalisation that he enjoyed on political reforms. Public attention has focused on the immediate disruptive impact of the changes.

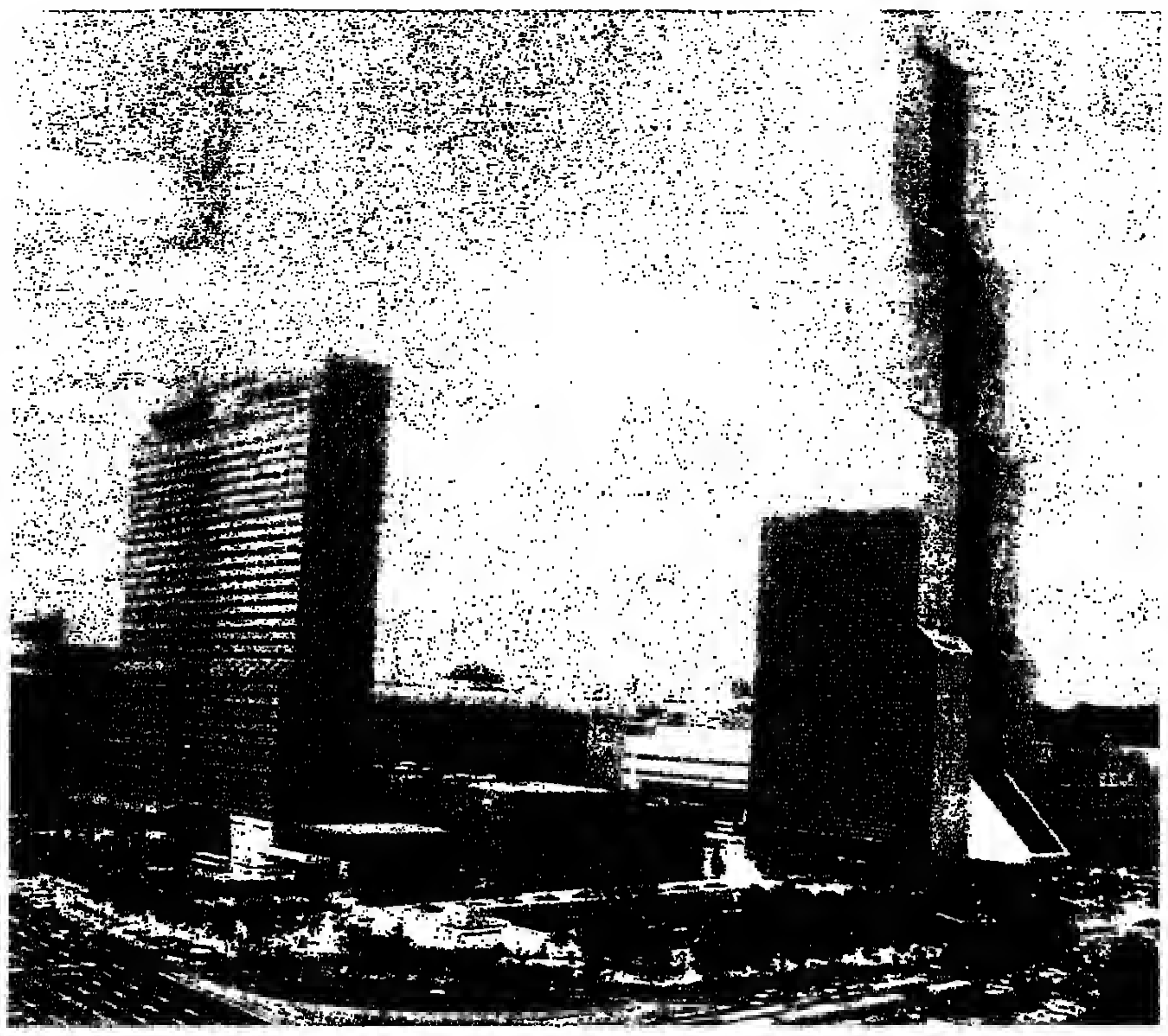
Farmers have protested about the decline of the agricultural industry caused by the opening of their protected market under the Uruguay Round of Gatt. Labour-intensive industries as well as the service and financial sectors are also ill-prepared for foreign competition.

Public opposition, encouraged by bureaucrats afraid of losing power, remains a potential obstacle to the successful introduction of the reforms.

But an even bigger threat is now emerging with the North Korean nuclear dispute, which could eventually throw the economic liberalisation programme off course.

A military conflict, though still unlikely, would obviously force the government to re-orient its priorities. A possible economic collapse of North Korea, caused by stiff international sanctions, might also force the government to scale back the reforms as it concentrates the country's economic resources on reconstructing a post-communist North Korea.

Even if these two worst-case scenarios do not occur, the nuclear dispute is creating suspicions among some South Koreans that the looming crisis is the result of international meddling, primarily by the US, on the Korean peninsula. That is likely to increase public scepticism about the government's calls for internationalisation.



Korea's World Trade Centre in Seoul

IN THIS SURVEY

Editorial production *Gabriel Bowman*
Design *Robin Coles*
Map *Bob Hutchison*

Louise Lucas looks at progress towards industrialising the economy

A hard climb up the ladder

Once known as the Miracle on the Han, the Korean economy has reached a crossroads. It can adapt and join the ranks of the industrialised nations; or, crippled by dwindling productivity and competitiveness, the heavy hand of government intervention and restrictive regulations, it can follow the downward track of Japan, its neighbour.

Mr Il Sakong, a former minister of finance and now chairman of the Institute for Global Economics in Seoul, says: "Korea has reached an awkward stage of development. It is a Newly Industrialised Economy but not quite yet an industrialised economy. It is about to enter this new stage of industrialisation to join the ranks of the industrially advenced nations. The question is how it will move up this ladder."

For Korea to become s member of the Organisation for Economic Co-operation and Development, as it plans to do in 1996, it must adhere to its programme of deregulation, especially in financial markets; improve labonr competitiveness and efficiency; maintain downward pressure on both wage and price inflation; open domestic markets to outside competition and introduce housing and land reforms.

There are also public sector issues to be tackled. To do so will not only win Korea credits in the eyes of the OECD; it will also secure the next phase of economic growth.

It is a tough task, but one which the government at any rate believes it is up to. South Korea's first civilian president in 30 years, Mr Kim Young-sam, is regarded as reformative and forward-looking, although whether he can overcome the vested interests and lower ranks of ministry officialdom is a question over which many analysts harbour doubts.

Last April, Mr Kim's administration unveiled a five-year economic plan to restructure the fiscal system, slapping taxes on speculative property gains and scaling back taxes charged to foreign investors, and to liberalise financial markets, turning the present government-orchestrated system into a market-based version more akin to those in the rest of the developed world.

The five-year programme for financial liberalisation, introduced last year, aims to overcoms the inefficiencies bred by ths non-price allocation of credit, both in the economy as s whole and in the financial sector itself.

Under the plan, lending rates and then deposit rates will be freed at the same time as the government loosens its grip on international capital movements.

However, the guiding principle is for gradualism – a policy which, while avoiding all the mayhem of a "big bang" approach to deregulation, may not best serve Korea at a time when so many of its neighbours are attracting foreign cash and technology.

Industrial development may also come too slowly to keep up with the rest of the world. Korean industry has lost its competitive edge at a tims when world demand is on the upswing. Economists reckon there are too many vested interests and interlinked issues to allow for speedy progress.

Mr Lee Hahn-koo, president of Daewoo Research Institute, says: "We need foreign investment, and the government wants to reduce the obstacles to investment. But it cannot be so speedy because the public mentality does not change so speedily. I believe we are now starting to get out of that vicious circle, but not so fast."

The government is eager to avoid any currency appreciation, which would hurt trading competitiveness. Mr Shin Myoung-ho, assistant minister of finance says: "There is a trend towards liberalisation, and so foreign governments and companies want us to speed our pace. But we have also to take into consideration some distnrbances to the macroeconomic variables.

"There is still a substantial gap between domestic interest rates and international rates, so if ws open up capital movement at this stage, we could suddenly have a huge inflow resulting in a sharp appreciation of our currency, or excessive liquidity causing inflationary trends."

For now, inflation is pitched to end the full year at under 6 per cent, despite a bad harvest which sent food prices soaring – althongh many Korean economists expect it to rise sharply next year. This is twinned with an upturn in the economy, which this year is forecast to grow at 7.6 per cent.

Interest rates, now close to the record lows of 1982, are also expected to remain soft until 1996. Less positively, the current account is on track to move back into the red this year (after posting a modest $500m surplus in 1993, which ended a three-year run of deficits) as imports, largely capital goods, surge. However, Baring Securities is looking for improvements in the second half of the year which will contain the 1994 deficit at a manageable $1.9bn, or 0.5 per cent of GNP.

Mr Lee, who is not confident of Korea's ability to continue riding this wave after two years' stagnant growth, points to several factors which could further undermine Korea's climb up the industrialisation ladder.

He says that if the yen starts to depreciate against the dollar, so enhancing the price of Japanese exports, and demand from China retreats as its growth slows and its own industry becomes an ample source of oil and steel, Korea could find its trade flows are penalised. He also questions whether Korea can sdapt to compete in the national arena.

Wage rises are out of line with improvements in productivity. Korea boasts the most expensive workforce in Asia after Japan, and Mr Lee estimates wages this year will rise around 12-13 per cent, in line with union expectations.

However, Mr Il believes that a restructuring of industry into more sophisticated value-added areas will enable Korea to regain its competitive edge, and says companies have started out on this path by upping their investment in R&D in acknowledgement of the changing nature of competition, which now comes from the developed world.

"Companies themselves are in a transitional period. In financial structure terms, Korean companies have a high debt to equity ratio compared with the advanced countries, while R&D capabilities are not as high.

"But they realise they can no longer remain competitive the way they are now, so they are taking steps towards intensifisd R&D and restructuring – but it is just beginning. If they are snccessful, of conrse the Korean economic restructuring will succeed, but it all depends on the companies' performance. And, based on our track record, I think we will do it. The question is how long it will take," he says.

South Korea: key facts

Area .... 99,000 sq km
Population ...... 44.1m   Head of state ...... Kim Young-sam
Currency .... South Korean Won
Average exchange rate .... 1992 $1=W 782.0
.... 1993 $1=W 802.5

ECONOMY	1992	1993
Total GDP (W '000bn)	205.9	217.2
Real GDP growth (%)	5.1	5.5
GDP per capita ($)	6,798	7,107
Components of GDP (%)		
Private consumption	54	54.1
Total investment	36.6	34.3
Government consumption	10.9	10.8
Exports	28.9	28.4
Imports	-29.9	-29
Annual average % growth in:		
Consumer prices (%)	6.2	4.8
Wholesale prices (%)	2.2	1.5
Average earnings (%) [2]	15.7	7.8 [1]
Industrial production (%)	5.3	5.9
Unemployment rate (%)	2.4	2.8
Employment (m)	18.9	19.2
Yield on corporate bonds (%) [3]	14.0	12.2
Govt. bond yield (%) [4]	13.2	12.0
Official discount rate (%)	7.0	5.0
Total reserves minus gold ($bn) [5]	17.1	20.2
Narrow money growth (M1)	13.0	19.0
Money growth (M2)	18.6	17.4
FT-A index (% change) [6]	11.1	27.7
Current account balance ($bn)	-4.5	0.5
Merchandise exports ($m)	75,169	81,024
Merchandise imports ($m)	-77,318	-78,946
Trade balance ($m)	-2,147	2,078
Main trading partners (%)	Exports	Imports
US	22.1	21.4
Japan	14.1	23.9
Hong Kong	7.8	na
Germany	4.4	4.7

(1) 1993 figure is October; (2) Manufacturing; (3) 3-year bonds
(4) Maturity up to 5 years; (5) December; (6) Year end.

Sources: IMF, EIU, Datastream, OECD

Though there are fewer disputes than in past years, labour relations remain tense

Hunger strikers' faith may deter foreigners

Visitors to the Federation of Korean Trade Unions in Seoul these days will find their nostrils assailed by a thin, acrid smell redolent of sick rooms. A series of crude primary colour posters gives details of the hunger strike taking place on the sixth floor.

Here, in a large bare conference room, a handful of men lie around, reading comic books and compnter manuals. One worker, in a suit, has not eaten for 20 days. "It is very painful but I havs a strong faith that we will win," he says.

If the strikers' 107 colleagues who were fired for union activities are reinstated, faith will have proved a more powerful adversary than the FKTU and President Kim himself. But either way, the outcome will give little faith to foreign investors, who cite Korea's turbulent labour relations as a reason to avoid equity participation deals in the peninsula.

Mr Lee Jun-wan, general secretary of the FKTU – which, he says, takes in 1.4m of the country's 1.8m organised union members – adds his support to the strikers. The dispute, affecting workers at the automobile insurance arm of Tongpu, one of Korea's 30 biggest chaebols or conglomerates, has been going for over a year and is, he suggests, a symptom of the stronger power wielded by the chaebol's head, Mr Kim Jung-ki, a relative of President Kim.

A court ruling early last month found Mr Kim not guilty, and the president is powerless to overrule the decision. Mr Lee says: "FKTU offered to solve this problem. President Kim ordered the Ministry of Labour very strongly to solve this problem. But there is still no solution."

Despite Mr Lee's protestations as to the FKTU's strength, the hunger strikers on the sixth floor suggest otherwise. If those lethargic figures represent hope to anyone, it is to the Korea Council of Trade Unions, a new illegal union that plans to give FKTU a run for its money from next year.

KCTU, owing no loyalties to government (unlike FKTU, which reaps some W7.5bn from government for educational purposes), claims it will more truly represent the workers' interests. It will certainly have a more militant edge, and stands to put a spanner in the works of labour relations which Mr Lee believes could be entering a more peaceful, non-violent era.

Korea has been a crucible of labour strife and disputes since 1987, when the Great Workers' Struggle erupted. A strike involving abont 1m workers, it lasted from June to September and was one of the factors behind the emergence of a new democratic trade union, set up in January 1990. However, government pressure weakened the new union, and a more loose-knit, organisation sprang up to fill the gap: the Korean Congress of Independent Industrial Federations (KCIIF).

KCTU seeks to bring together KCIIF and the dissident Korea Trade Union Congress (KTUC), which was formed by the Democratic party. Its proponents believe it will win over 600,000 members.

Mr Shin Eun-cheol, the chain-smoking executive secretary of the KTUC, says: "The union movement is still powerful. We are facing a challenge so if we work well the union maintains its strength but if we fail to meet the challenge then we may also be ruined."

The government still has uneasy relations with unions that do not come under FKTU. KTUC says some 300,000 workers have been dismissed for union activities: there is even a Struggle Committee for Dismissed Workers' Reinstatement. Former KTUC president Pen Byung-ho remains in hiding – allegedly with a $1m price on his head – after lecturing union leaders during the 52-day Hyundai strike last summer.

Even the government steers clear of putting a brave gloss on labour relations. An official at the Ministry of Labour says: "The major problem is how to succeed in completing this year's wage negotiations between labour and management. In some enterprises we are afraid there could be labour disputes which will cause strikes.

"It is not only a question of wages. Workers in some big enterprises are making varions demands, such as workers' participation in management. That is why management feels it is very difficult to succeed in signing labour contracts."

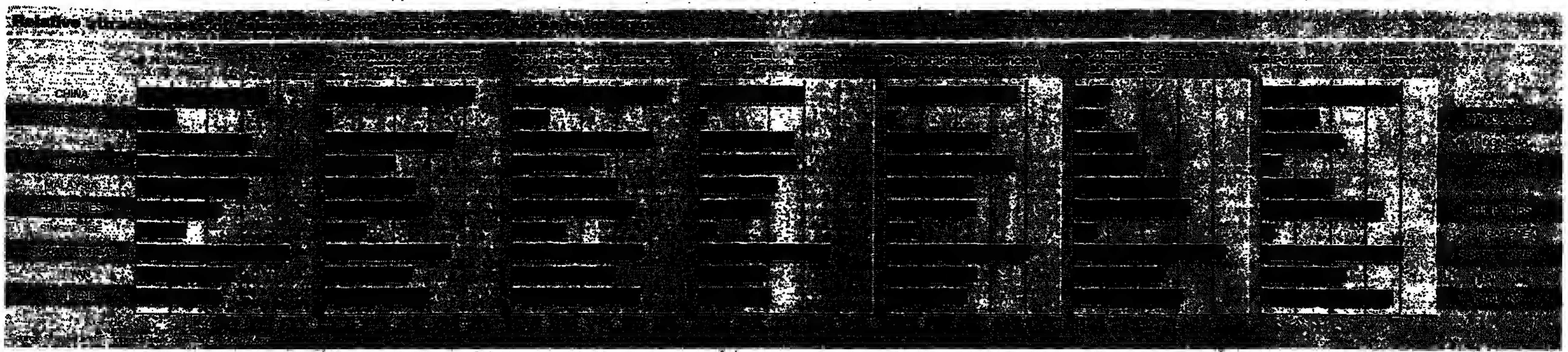
Two years ago, in deference to workers' demands, the government set up an 18-member labour reform study committee, which duly came up with a clutch of recommendations. The labour ministry insists: "We are going to try to make these amendments, but it is very difficult to say now what the timeframe will be."

However, some changes to labour policy have been effected under the civilian government, and statistically labour strife is on the wane: from 3,617 labour disputes in 1987 to 200 last year and just 26 "small scale" dispntes in the first five months of 1994. Wage rises have been negotiated at an average 8.7 per cent (the consumer price index stands at around 6 per cent); and almost half of the 5,500 biggest companies' wage negotiations had been concluded by June 9 – more rapidly than in previous years. In the same period last year 35.7 per cent had been concluded.

The new government swooped on labour policy shortly after coming into power. The prompt was economic rather than social: increasing international competition and a slack domestic economy were eroding profit margins and highlighting gross inefficiencies within the workplace. Prodnctivity growth was failing to keep pace with spiralling wage increases.

But the hunger strikers' action shows that Korea still has much work to do on the labour front. As Mr Lee Hahn-koo, president of the Research Institute, says: "I don't think we are safe from disturbances. There's still some unrest. The workers are not so rational in Korea."

Louise Lucas



Paul Abrahams on the south's bid to attract foreign companies

Uphill battle for investors

South Korea is on the hunt for foreign investment and technology. The rapid rise in wages since 1988 means it can no longer compete as a low-cost manufacturing centre. Compared with the Philippines, Vietnam and China, costs are high. Instead, South Korea must compete in high-technology areas.

But although the country is now one of the leading manufacturers in the shipbuilding and automotive sectors, its technological base remains weak. Korean companies, on average, spend only 3 per cent of turnover on R&D, compared with about 7 per cent among their western counterparts.

The government is also anxious to attract investment from foreign companies, particularly Japanese component manufacturers. South Korea runs a hefty trade deficit with Japan, mostly caused by imports of sophisticated machine tools and automotive components.

But the hunt for foreign investment and technology is proving an uphill battle. Foreign investment in South Korea has fallen in recent years. Investment by Japanese companies fell from a peak of $697m in 1988 to only $155m in 1992, rising to $286m last year. European investment peaked at $824m in 1991 and fell to only $307m last year.

The reason is that South Korea has a poor reputation as a location for foreign investment. A recent report by Political & Economic Risk Consultancy, the Hong Kong-based group which canvassed opinions of 95 corporate managers and bankers, was damning of South Korea's attractions.

The study suggested South Korea:

- was the most nationalistic country in Asia;
- was the most bureaucratic after China and Indonesia;
- had an economy dominated by cartels and state-owned companies;
- discriminated more than any other nation against foreign investment;
- was the most protectionist nation in Asia;
- had the highest potential for labour unrest;
- and had a greater potential for social unrest even than China.

However, companies operating in South Korea believe there are two main obstacles hindering foreign investment – labour and tax.

Foreign investors have been concerned both by the high cost of labour as well as the number of industrial disputes. Admittedly, the latter has fallen by nearly three-quarters since the peak of 1988, but the legacy remains.

"Many Japanese companies were put off by the bitter experience of trade disputes a few years ago," says Mr Yoshiaki Onuki, chairman of the Japanese Association in Seoul. "Although the number of disputes has fallen, labour is still a problem. Pay is at a very high level. Japanese companies in Seoul pay their workers, on average, Won3m a month, compared with an average of Won900,000 in non-Japanese companies. Retirement costs are double those in our Tokyo headquarters," he says.

The other main problem facing foreign companies is the National Tax Authority. This body, working under the finance ministry, has recently launched investigations into as many as 25 European and US companies operating in South Korea. Huge tax bills have been imposed on some, leading to complaints that the measures were retroactive – dating back up to five years – and less than transparent.

"The economic co-operation bureau at the finance ministry is saying 'invest here, all is sweetness and light', but the tax authority is imposing five years' worth of retroactive taxes together with penalties and interest that wipe out your profits. It's ludicrous," says the chief executive of a European multinational.

"Japanese companies have also been affected by an iniquitous tax regime," says Mr Yoshiaki Onuki, director general of the Korean subsidiary of Mitsui, the Japanese trading group. "Most of the Japanese banks and trading houses are losing money in South Korea. But the tax authorities then impose taxes on what they think you ought to be making. You end up making unexpected losses," he says.

Foreign Investment (in $bn)

	1987	1988	1989	1990	1991	1992	1993
Japan	497	697	466	236	226	155	286
US	255	284	329	317	296	379	341
Europe	210	243	212	207	824	282	307
Others	101	60	83	43	50	78	110

Source: Ministry of Finance

Other issues include the high cost of land. Mr Byong-Seok Chang, president of Sony Electronics of Korea, explains that land near Seoul costs about $200 for 3.3 sq metres. That compares with $85 in Taiwan and $55 in Malaysia, while in Singapore the same space rents at $30 a year and at $15 in China, near Beijing.

"Intellectual property is another concern. South Koreans are reputed to cheat on intellectual property. That reputation may lag reality, but it remains," says a European businessman.

Mr Duck-Koo Chung, director general of the economic co-operation bureau at the finance ministry, insists the intellectual property problems have been resolved. Nevertheless, western and Japanese groups are concerned that by setting up joint ventures and offering technology transfer, they may give away their crown jewels.

Mr Onuki doubts if many Japanese component makers will invest. "Much of the technology they own was developed with the co-operation of the Japanese car manufacturers. The latter would take a dim view of handing over that technology to the Koreans."

However, President Kim Young-sam's government is anxious to make the country more attractive for foreign investors. This month its inter-agency task force for foreign investment will announce a series of measures that continue the deregulation process, ensuring greater competition.

The measures include faster approval of investment permits, more rapid approval of land purchases, special investment areas for foreign investors, easier access to short-term overseas loans; and a special tax tribunal for overseas groups. As for labour relations, Mr Chung insists the country's reputation is based on outdated attitudes – there are now fewer disputes in South Korea than in Japan.

The policy of attracting investment has paid some high-profile dividends. The most significant have included the $2.1bn deal concluded by GEC Alsthom, the Franco-British consortium, for South Korea's high-speed railway, and Samsung Heavy Industries's contract with Nissan Motor of Japan to import car technology.

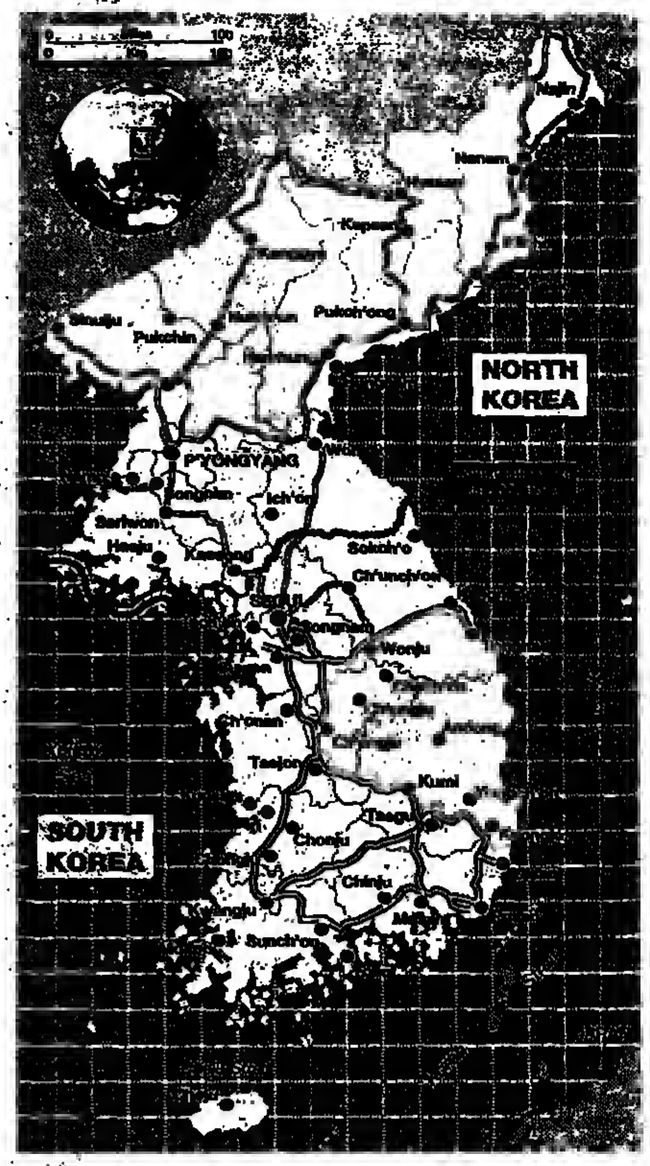
Nevertheless, not all companies are convinced. "Many long-established residents just do not perceive a great deal has changed," says Mr Alan Twist, president of the EC Chamber of Commerce.

"They seem to be trying to remove disincentives, but are not providing any incentives," complains one European businessman. "A radical shift is required even to start catching up with Vietnam or China."

Few Japanese companies seem set to leap back into Korea. "They need Japanese technology and management expertise, but until they sort out the main problems, I don't think there will be much interest," says Mr [illegible].

Even if such practical concerns are addressed, there remain cultural problems. "A number of Japanese companies set up joint ventures, but there's a real difference in management styles. The Koreans take so many holidays, and they expect special bonuses all the time," complains Mr Onuki.

Others remain cynical. One European chief executive laments: "They still want your technology. They still want your money. Then they still want you to get out."



Paul Abrahams on investment in the north

Pyongyang must wait

Though it sounds unlikely, North Korea hopes to compete successfully with ther Asian countries in attracting foreign investment.

For the moment, the policy is on hold as the US attempts to co-ordinate UN sanctions because of the ref- usal of Pyongyang to allow inspectors access to its nuclear facilities. But in the long term, the government hopes foreign investment will save the economy and incidentally sustain North Korea's political system.

Pyongyang needs overseas investment because the North Korean economy has moved into sharp reverse. The collapse of the former Soviet Union has cut off the nation's most important sources of foreign trade, previously representing half of all trade.

North Korea: economic indicators	1989	1990	1991	1992	1993
Real GNP growth	2.0%	-3.7%	-5.2%	-5.0%	n/a
Rice production ('000 tons)	6,400	5,900	5,300	n/a	1,300
Population	21.0m	21.4m	21.8m	22.2m	22.6m
Exports	\$1.69bn	\$1.86bn	\$1.40bn	\$0.92bn	n/a
Imports	\$2.90bn	\$2.93bn	\$2.31bn	\$1.55bn	n/a
Trade deficit	\$1,219m	\$1,073m	\$902m	\$630m	n/a
External debt	n/a	n/a	\$4.7bn	n/a	n/a
Exchange rate*	0.94	0.94	0.96	2.16	n/a

*Won/$ average. Source: Economist Intelligence Unit

The North Korean economy shrank in 1990, 1991 and 1992, according to Dr Hongstack Chun, fellow of the Korea Development Institute. Latest figures from the South Korean central bank suggest it fell 4.3 per cent last year. Professor Aidan Foster-Carter of Leeds University estimates North Korea's GNP last year at only \$20bn, the same as a single year's GNP growth in South Korea.

Faced with a growing economic crisis, the Pyongyang government has been mesmerised by the success of reforms across the border in China.

The North Koreans have already emulated Chinese legislation to create the right legal environment for investment, according to Dr Chun.

Special investment areas, similar to Chinese special regions, have also been created. These include a site at Nampo near Pyongyang aimed at South Korean investment, and another near the Chinese border. Tourist areas are also being created in the Kumgang mountains near the demilitarised zone, and Paektu on the Chinese border.

However, the most advanced project is the Tumen River Area Development Programme which has been co-ordinated by the United Nations Development Programme. This region is at the junction of the borders of North Korea, Russia and China. The rationale is that the North Korean coastal zone would provide sea-access to northern China, explains Mr Jacob Guijt of the UNDP.

However, progress has been slow and recently the Chinese and Russians have proved less than enthusiastic partners, be admits.

Indeed, the North Koreans' efforts have not proved particularly successful anywhere.

So far, the only investments have been small-scale projects by Korean Japanese sympathetic to Pyongyang. "The North Koreans been really disappointed," says Mr Anthony Michell of Hong Kong-based consultants Euro-Asian Business Consultancy . "However, it takes about two years between considering an investment and actually putting building the plant. The programme only really started recently, so there's still time."

One reason for the absence of investment is the north's continuing unwillingness to repay loans to the international banking community. The principal sum amounted to \$747m, although that has doubled because of interest. In addition, some loans to the former Soviet Union dating back to 1949 still remain unpaid.

Another reason for the international community's reluctance is the failure of most of the Japanese-Korean joint ventures. Some North Korean business practices have also been questionable.

Infrastructure, or rather lack of it, is another concern. "There are no container facilities at the ports," explains Dr Chun. "More than 80 per cent of travel is by rail and the trains have an average speed of 40kph."

North Korea does have some advantages, however. Mr Michell points out that labour is well-educated, disciplined and highly productive. The internal market represents about 22m potential con- sumers. In addition, there are huge mineral and forestry resources. The north, a cheap manufacturing location at the heart of one of the world's fastest-growing regions, would also provide access to nearby markets in Japan and China.

In the long term, all agree the north and south will be united. North Korea would offer a cheap point of entry to a market of about 70m consumers, says Mr Michael Breen of Merit, the Asian consultancy.

"There would be no tariffs from the north to south – they're the same country. There's bound to be investment over the next six months, although it depends on the Asian investment cycle. By 1996, North Korea could be on the cover of Newsweek as the new Vietnam," enthuses Mr Michell.

The defence market opens up

Europe's chance

The Korean War museum, opened earlier this month, commemorates the tragic conflict which convulsed the peninsula more than 40 years ago and left the country divided, one of the last legacies of the cold war. But next to the maps and diorama of the struggles of yesteryear is also a proud display of the nation's contemporary arms industry, the fruits of Seoul's Yulgok Project, a programme estimated to be worth more than \$37bn that is aimed at establishing a technology-based domestic arms industry.

Seoul's ambition to build up its weapons manufacturing capabilities is unsettling the South Korean military equipment market, irritating the US, which has been the overwhelmingly dominant supplier, and providing opportunities and risks for gronps from Europe and elsewhere.

At stake is a great deal of money. South Korea's defence budget is between \$12.5bn and \$13bn a year, of which about half is spent on equipment. Of that procurement budget, on average between a quarter and a third is spent overseas – more than \$3bn a year.

Until the late 1980s, the US market share of the overseas procurement hndget was as high as 95 per cent according to western diplomats. That proportion has fallen to about 80 per cent, although the figure changes from year to year, varying when large contracts are awarded, and has been as low as 60 per cent.

Seoul's desire to build up its military manufacturing capability is partly motivated by the reluctance of Washington to snpply its most sophisticated bardware. "The Americans have a tendency to supply the Koreans with what suits the US, rather than with what the Koreans want," explains one European diplomat. "Washington doesn't want its technology exported to third parties, and doesn't want the Koreans to be competitors in the arms bazaar in 10 years' time."

The reluctance of the US to supply South Korea with sophisticated technology is accompanied by Seoul's desire to reduce its dependence on Washington. In the short term, the alliance between the US and South Korea remains firm. But in spite of American officials' denial of any desire to withdraw US forces from the peninsula, European diplomats say the presence of US troops in a united Korea would probably be an anomaly.

Washington's willingness to supply arms after such a withdrawal would be more equivocal than at present, they claim. "If the US has to choose between supporting Korea or Japan, there's no doubt who would lose out," says one European diplomat.

As a result, Seoul is hunting for military technology wherever it can find it, a policy which offers significant opportunities for non-US arms groups. European countries, less reluctant than the US to transfer technology, have already been able to snap up an increasing number of contracts. The market leaders are probably Germany and the UK, followed by France, Spain and Italy.

European countries, less reluctant than the US to transfer technology to Seoul, have snapped up an increasing number of contracts

The areas where European manufacturers can compete most effectively are mostly where the US has no equipment available to meet Korean requirements. The most ohvious example was the contract for nine diesel submarines concluded by Howaldtswerke Deutsche Werft of Kiel, Germany. The US does not manufacture such vessels. Similarly, American suppliers were unable to meet Seoul's requirements for transport aircraft with short runway capabilities. The contract was eventually was given to Casa of Spain which will supply 12 CN-235s at a cost of about \$200m.

On occasions the Europeans can win against US competition, however. Matra of France won a contract for about 150 Mistral man-portable surface to air missiles in a deal initially valned at \$180m, which could eventually be worth up to \$720m. Although the cheaper Stinger missile offered by US company General Dynamics was preferred by the South Korean army, the Pentagon was reluctant to release the technology. Matra's willingness to supply Lucky Goldstar with technology and allow it to participate in about a quarter of the project won the day with the South Korean government.

The Europeans' efforts would perhaps be more successful if they worked together. At present, European suppliers, sometimes from the same country, virtually slit each other's throats in their efforts to win contracts.

"It's ridiculous that we have two European helicopter companies competing with each other," says one European diplomat. "It'e difficult enough just competing with the US." He gives the example of a consortium between British Aerospace and Sema of France which recently won a contract to supply the electronic combat system for Korean navy's destroyer programme against Atlas Elektronik, a German competitor, and Ferranti of the UK. Other diplomats agree that Europe's lack of co-ordination hinders its efforts, but there remain few signs of greater co-operation.

Maanwhile, US milttary authorities in South Korea argua that buying European systems could lead to problems of compatibility with US hardware stationed on the peninsula. European suppliers say this fear has been exaggerated, pointing out that most European weapons are configured to Nato standards anyway.

A further danger highlighted by US officials is that non-American suppliers may prove unwilling to supply materials and spare parts during a conflict. The status of the \$66m PC-9 trainer programme which was due to be supplied from Switzerland by Pilatus remains in doubt because of Swiss concerns that the 20 aircraft could be converted to carry weapons. Seoul's inexperience in dealing with non-US contracts has led to expensive bills for spare parts, according to one diplomat.

Most European diplomats concede it will be impossible for the Europeans to compete with the US for contracts for major platforms, such as jet fighters or tanks. Washington's political clout, and the dominance of US military thinking on the peninsula, put such huge deals out of bounds.

However, Europeans could supply components or the entire programme for projects such as:

* Electronics equipment for about eight reconnaissance aircraft, smaller than the American Awacs, but capable of offering airborne early warning capabilities. The South Koreans are almost completely dependent on the US for information about movements in North Korea.
* Trainer aircraft. After the failure of Daewoo Heavy Industries' indigenous KTX-I trainer, Lockheed of the US is offering help for early development for the KTX-II programme in a deal worth about \$700m. The next stage of development could be worth up to \$2bn. The UK wanted to supply a cheaper redesigned version of the BAe's Hawk.
* Frigates: South Korea's admirals have aspirations to a blue water navy, capable of operating beyond coaetal waters. European diplomats say the US is offering reconditioned ships. bnt the South Korean navy wants new vessels of possibly up to 8,000 tonnes.
* Deep water suhmarines. The UK is understood to hava offered four second-hand Upholder class vessels, but the South Korean navy is not particularly interested.
* Naval helicopters.
* Mine-hunters.
* Ground-based electronics, particularly in the field of command, control and communications. This might include military satellite communications.
* Land-based helicopters.
* An upgrade of the K1 tank. Most of the equipment would probahly be provided domestically or by the US, but European suppliers could ship some components.

The extent to which the Europeans can capture market share remains unclear. This is partly becausa in recent months few deals have been concluded. A purge of the armed forces and an anti-corruption campaign instigated by President Kim Young-sam has led to a virtual paralysis in military procurement. During 1993, only 20 per cent of the overseas procurement budget was actually spent.

"Nobody wanted to make a decision," explains one diplomat. The disincentives to take action received a further boost last year after a \$6.67m fraud involving a French-Korean, counterfeit bills of lading and a non-existent cargo of artillery shells. The affair cost Mr Lee Kyong Jae his job as defence minister. However, diplomats say the decisiun-making process is now loosening up.

Although South Korea represents an opportunity for European companies, diplomats admit there are risks. In the first place, the contracts may not be particularly profitable. Some non-US suppliers have succeeded hy offering low prices or even throwing in free samples. In addition, nearly all deals over \$5m include a mandatory offset of 30 per cent.

Another problem is that by winning a contract through technology transfer, the Europeans could create a future competitor. "The main advantage the European makers have is their willingness to offer technology, but they mustn't offer too much," says one European diplomat.

However, most European observers discount such dangers. "What the Koreans have done in the automotive industry is extraordinary," says a European diplumat. "But there's a big difference between assembling a submarine or n trainer aircraft, and developing one for yourself."

Anuther explains: "The clever stuff is really beyond them. On a submarine, the sonars, weapons and controls to propel and direct the boat are all too sophisticated. It's worse in aerospace."

Indeed, the track record of the Korean Agency for Defence Development (ADD), responsihle for acquiring technology and then developing indigenous weapons systems, is particularly patchy in that sector.

The most disastrous example is Korea's KTX-I trainer aircraft, developed by the ADD. The aircraft was underpowered and overweight, making the trainer difficult tu manoeuvre, and there were problems with the landing gear.

The ADD is continuing to persevere, however. After the failure of the KTX-I, it is co-ordinating development of the KTX-II. Samsung, Lockheed of the US, and Casa of Spain are collaborating to develop a twin jet-engined trainer.

"The Koreans will keep pushing for technology," says one diplomat. "The Europeans will give it to them. But it's more likely to be the older generation kit – say the mark VI rather than the mark VII. The question is whether the Koreans, using all those PhDs to vacuum up technology from whatever source, will eventually be able to catch up on their own. In the short term, the answer is no. In the longer term, the question is rather more difficult to answer."

Paul Abrahams

John Burton looks at the south's foreign policy

US is blamed for crisis

The most criticised aspect of President Kim Young-sam's administration has been its inconsistent policy on the North Korean nuclear issue.

Mr Kim has shifted back and forth between accommodation and tough rhetoric during his 16 months in office. This reflects deep divisions, largely based on generational differences, among the South Korean public and his own cabinet on how to handle North Korea.

But North Korea'a apparent final refusal to allow international inspections of its nuclear facilities has ended the months of wavering in Seoul. The government now appears united in supporting stiff sanctions against the north.

This does not mean, however, that public debate on the issne has abated. There are predictions that South Korea could soon witness some of its biggest demonstrations since 1987, when the military government was overthrown, as students protest that the government's hard-line policy could eventually lead to war.

The nnclear dispute has served as a catalyst on Korea's future role in north-east Asia and Seoul's relations with the US, its closest ally.

Whatever the outcome of the crisis, South Korea is likely to adopt a more independent and assertive foreign policy in the future that could weaken its ties with the US and might even lead to acquiring its own nuclear capability.

Conservatives have criticised the government for allowing the US to dominate policy on North Korea at the expense of South Korea's national interests. They were angered by Washington's willingness to establish direct contacts and possible diplomatic relations with North Korea, a development they feared would weaken South Korea and strengthen the north.

As Sonth Korea tried to undermine support for the north by wooing its Chinese and Russian allies, so North Korea was believed to be doing the same by using the nuclear inspection issue to gain US diplomatic recognition.

The collapse of Washington's conciliatory approach to North Korea in response to Pyongyang's continned refusal to make concessions on nuclear inspections has vindicated the conservative faction and strengthened its influence.

But there are doubts in the two opposition parties – and among the 84 per cent of the population born after the Korean war ended in 1953 – that confrontation with North Korea is desirable.

University students believe that the US and Japan, not North Korea, represent the biggest potential threats to South Korea, according to a recent survey. They claim that the nuclear dispute has been provoked by the US to reverse Washington's dwindling influence on the Korean peninsula.

Anti-American feeling is widespread because of past US support for the country's military rulers. This view is not limited to students. "The US military and CIA are causing this crisis because they need a new enemy to replace the Soviet Union and thus maintain their huge budgets. That enemy is North Korea," says a South Korean businessman.

Public distrust is even greatar concerning Japan, Korea's traditional foe. One sign of widespread suspicion toward Japan is the plot of South Korea's current best-selling novel, a thriller called *The Rose Of Sharon Has Blossomed*, the title referring to Korea's national flower.

It is the late 1990s and Japan has launched a limited military attack against South Korea as a result of a dispute between the two countries over raw materials from Russia.

Soutb Korea suddenly reveals that it has been secretly co-operating with North Korea on a nuclear bomb. The two Koreas explode the device on a deserted island near Tokyo as a warning and Japan surrenders. Korea has obtained just revenge for Japan's harsh colonial rule of the Korean peninsula in the early 20th century.

The popularity of the novel suggests that one unexpected result of the North Korean nuclear dispute may be growing public acceptance for South Korea to possess its own nuclear arsenal.

"Many people wonder if South Korea shonld try to inherit the North Korean bomb once reunification occurs or try to develop our own since it would improve our security and status," said one Korean journalist. "We would no longer be the Korean shrimp among the whales of Japan, China and Russia."

If the south had its own nuclear bomb, "we would no longer be the Korean shrimp among the whales of Japan, China and Russia"

South Korea tried to develop a nuclear bomb in the 1970s under its former military president, Mr Park Chung hee, to counter the north's military strength. It was forced to abandon the programme under US pressure.

In contrast, it is the left that is now leading the call for South Korea to acquire nuclear capability to counter what is perceived to be a potential Japanese atomic threat.

There is concern in South Korea about Japan's growing stockpile of plutonium, the key ingredient in manufacturing a nuclear weapon. Japan is also building a plutonium processing plant and recently began operating an experimental fast breeder reactor that can produce additional plutonium.

North Korea has tried to exploit the south's fears by suggesting that its suspected nuclear programme is meant to contain Japan, which it accuses of racing "headlong toward nuclear armament".

Moderate South Korean politicians are also beginning to argue that their country should acquire the potential capability to enter the nuclear club in response to possible atomic threats from either North Korea or Japan.

Mr Park Chan-jong, an opposition MP who is one of South Korea's most popular politicians, recently proposed that the country should acquire enrichment and reprocessing facilities that could extract plutonium from the nuclear waste generated by its 20 current and planned commercial reactors.

The reprocessing facilities would enable South Korea to obtain plutonium for possible nuclear weapons in the event of an national emergency.

Although Mr Park supports strict international inspection procedures for the South Korean reprocessing factlitles, their existence "would serva as a check against North Korean tactics.

"We can talk on equal terms with other nations which have similar nuclear facilities," he said. "Though Japan is exemplary in terms of its nuclear transparency, no one can deny its potential for nuclear weapons capability."

South Korean nuclear industry officials favour reprocessing facilities on practical grounds since the country is having difficulty finding sites to store nuclear waste.

But one obstacle is that the US has barred South Korea from reproceseing spent nuclear fuel since the 1970s as part of its policy of stopping Seoul from developing nuclear weapons.

"South Korean nuclear and missile sovereignty should be restored," says Mr Park. "Our sovereign rights over the peaceful use of nuclear energy and missile development have been unjustifiably suppressed by the US. Consequently, this nation now has no alternative but to depend on the US for its security whenever threatened by the North Korean strategic capability."

The government has strongly condemned any suggestion that it is considering building nuclear reprocessing facilities, explaining it would increase tensions in the region. It would also violate the 1991 North-South Korean denuclearisation treaty, which bans plutonium-separation facilities.

The proposal to acquire reprocessing capabilities is an "irresponsible idea being promoted by the opposition," says one aide to President Kim Young-sam.

But that may not be true much longer if the government decides to nullify the inter-Korean denuclearisation treaty because of North Korea's construction of a euspected nuclear reprocessing facility and its refusal to allow international nuclear inspections.

Paul Abrahams considers the affinity - and also the antipathy - towards the Japanese

So close – and yet so far apart

South Korea is xenophobic. Suspicion of foreigners and foreign goods is instilled at primary schools, propagated by the media and practised by bureaucrats and businesspeople. There are, of course, individual exceptions. But South Korea is probably one of the most xenophobic countries in the world.

The cause of this extraordinary collective dislike of things and people foreign is not hard to fathom. Korea has been invaded, ravaged, and economically exploited by foreign powers throughout its history. Forces from the country's three powerful naighbours, Japan, China and Russia, have all battled over the country, while even before the Korean War, troops from the US, France and the UK each made incursions of various gravity.

Although Korea has endured onslaughts from all directions, Sonth Korea's xenophobia is targeted at one country in particular – Japan. A visit to the Independence Hall of Korea, near Chonan, a shrine to nationalism visited daily by thousands of children, explains why.

The most popular exhibit – in tha Japanese Aggression Hall – is a waxwork display illustrating Japanese soldiers during the occupation between 1910 and 1945. They are shown in the process of torturing Korean women, and burying Korean men up to their necks before beheading them.

The hall explains to the children how the enmity between the two countries dates back to the first Japanese invasion of 1592 when Shogun Toyotomi Hideyoshi's forces ransacked the country. They can read citations of merit awarded during the conflict which granted a stipend to Koreans who beheaded more than one Japanese soldier. On view is a replica of one of the "turtle ships" that Admiral Yi Sun-Shin used to destroy the Japanese fleet. And in case the message has not sunk in during the visit, the children can buy comic books retelling the sagas of Korean heroes and heroines fighting against the Japanese.

Admittedly, the museum does offer a few details of other foreign incursions. The Manchurian invasion of the early 17th century, which was probably as destructive as the earlier Japanese attack, is given a little space. One of the tundreds of monuments erected in the 1870s by Regent Hungsun Taewon-gun after the French and US landings is also on show. It reads: "Western barbarians invade our land. If we do not fight, we must then appease them. To urge appeasement is to betray the nation."

But the main emphasis of the museum is directed against the Japanese. Such sentiment is propagated thronghont South Korea. Take Korea's submarine construction programme. The first vessel was called Changbogo-Ham, after the 1st century Korean admiral who fought the Japanese. The second was the Lee Chum-ham, named after another admiral who struggled against the Japanese. The third, the Choemuson-Ham, was named after the 14th century admiral who destroyed about 500 Japanese pirate ships using gunpowder and guns. Fourth was the Park-Wi-ham, after the admiral who attacked Tsushima Island in Japan and crushed 300 Japanese vessels in 1389. Even

Trade deficit with Japan deteriorates

Year	$bn
1989	3.99
1990	5.93
1991	8.76
1992	7.86
1993	8.45

Source: Ministry of Finance

South Korea's armaments programme, the Yulgok project, is named after a 16th century court adviser whose warnings about the possibility of a Japanese invasion were ignored.

The Japanese Aggression Hall focuses not only on the atrocities during the colonial period, but also on the cultural imperialism imposed by Japan. In the later stages of its colonial occnpation, Japan attempted to force complete union by obliging Koreans to adopt Japanese style names and enforcing use of Japanese in state schools. Inability to speak Japanese meant Koreans were denied ration cards. The Japanese also tried to stop the Koreans wearing their traditional white clothes. Pictures in the hall also show Koreans being forced to worship at Shinto shrines.

Few nations continua to poke at the sores of the second world war with as much fervour as Korea. This compares with a Japan, where many contiune to deny Japanese blame for the outbreak of hostilities during the Manchurian incident in the 1930s and refuse to admit that the Japanese army committed atrocities during the subsequent war.

Earlier this year, Mr Shigeto Nagano was forced to resign as Japan's justice minister just 10 days after taking office. The reason was that he had voiced the view, commonly-held among older Japanese, that the massacre of 150,000 people in the former Chinese capital of Nanking in 1937 never happened. He also claimed that the occupation of China had not been an act of aggression.

Many Japanese also still refuse to admit the role of the Japanese imperial army in setting up brothels during the Pacific War using other Asian nationals, inclnding Koreans, known as comfort women. The Japanese government only last year acknowledged and apologised for coercing such women. At least 100,000 of them were Koreans.

As for Japanese attitudes to the colonial period, diplomats in Tokyo privately regret that Koreans do not recognise the beneficial side of colonialism. During 37 years of occupation, Korea's economy was transformed, they say. Feudalism was abolished, the political and judicial systems updated, the economy advanced from an agrarian to a semi-industrial state. Agricultural production increased, railways were built and mining and forestry operations vastly expanded. Such patronising attitudes infuriate the Koreans.

Given the history of Korea and Japan, lateral relations between tha two countries are understandably not as good as they might be. However, both governments are trying to create a rapprochement between the countries, ending centuries of anmity. The Koreans want to reduce their massive and worsening $8.45bn trade deficit with one of their most important trading partners by attracting Japanese technology and investment, particularly in the realm of automotive components and machine tool technology. The Japanese, for their part, view the possible nnclear build-up in North Korea as a direct threat to their security, and so are anxious to support Seoul.

However, to attract additional investment and generate more cordial relations with Japan will require a massive change in attitudes among Koreans, who will have to exorcise the Japanese ghost from their national psyche. It will also need a complete redirection of Korean nationalism.

To generate more cordial relations with Japan, the Koreans will have to exorcise the Japanese ghost from their national psyche

Admittedly, the Korean attitude to Japan is ambivalent. There is the fascination of the Japanese economic model. Protectionism, large conglomerates and state-directed investment have all been borrowed from Japan in an effort to emulate that country's economic miracle.

Similarly, urban Korean youths are obsessed by Japanese culture. Women openly look at banned Japanese fashion magazines, although many cannot understand Japanese. Adolescent boys read Japanese comics and listen to Japanese music. The ambivalance of Korean youths is shown in the results of a recent survey which recorded that the country they most admire is Japan. But they also view Japan as potentially the most dangerous.

Any rapprochement with Japan is likely also to require a reassessment of Korea's own role during the Pacific war. Although the Independence Hall of Korea stresses the horrific treatment by the Japanese of Korean "comfort women", there is no mention of the tens of thousands of Koreans who fought for the Japanese during the Pacific War, many of them volunteers. The behaviour of Korean prison guards, many of whom had a worse reputation for cruelty among Allied prisoners of war than the Japanese, is also glossed over.

Nor does tha museum explain that Korean collaboration reached the highest echelons of subsequent governments. For example, former President Park Chung-Hee saw active service in the Japanese Imperial Army in China during the final stages of the conflict. Many members of the government after the 1961 coup also had Japanese military experience.

How successful are the two governments likely to be in their efforts to reduce animosity? Certainly, the countries have a cultural affinity. The Koreans are proud that the Chinese influence, so pervasive in Japanese life, was transmitted through Korea. They share Confucianism, both support a similar form of capitalism, and they are also among the few democratic governments in Asia. Economically, they could form a powerful trading block.

But although they may be physically close, the countries remain mentally apart. The long-term relationship will depend on how Korea views its strategic interests in a post-unification future. Without a threat from the north, Korea will be bereft of an external threat. Is Korea sufficiently mature to feel comfortable without an enemy?

South Korean policy makers are unsure whether Korea and Japan, the region's two economic powerhouses, are set on an inevitable collision course, leading to an arms race that would shatter the strategic balance in north-east Asia. The ambition of the Japanese self defence forces to acquire aircraft carriers is viewed with alarm by the Koreans who believe such vessels can in no way be construed as defensive weapons.

The alternative policy, viewed as desirable by some bureaucrats in the Blue House, the president's residence, is the creation of huge trading bloc between Japan, Korea and Taiwan, which would offer a combined market almost as large as the US.

If they are to be successful in healing this bruised relationship, the Japanese must become more sensitive to Korean concerns. The Koreans, for their part, must develop a more mature form of nationalism, based less on a xenophobic past and more on the needs of the future. The alternative is an arms race that will serve neither countries' interests.

John Burton looks at the secure home base of the country's car manufacturers

Trade barriers foster overseas growth

The growing number of new Korean cars appearing in western cities from London to Los Angeles is a sight that enrages European and US motor companies.

While western carmakers worry that South Korea may repeat the success of Japan in posing a serious challenge in their home markets, they are virtually shnt out of Korea, which is the second biggest car market in Asia after Japan.

Korea last year imported only 1,984 passenger cars, which is almost the same as the number of cars sold in a single day in the country. In contrast, Korea exported a record 639,000 vehicles last year, with one third being shipped to western Europe and the US.

Korea's restrictions against car imports are cited as one example of how the country has used trade barriers to foster the growth of its main industries by protecting them against foreign competition. The complete domination of the domestic market by Korea's big three carmakers – Hyundai, Kia and Daewoo – has helped transform the country into the world's sixth largest vehicle producer.

Korean car manufacturers are now launching an aggressive export offensive in Europe and the US from their secure home market.

Hyundai Motors, Sonth Korea's largest car manufacturer and biggest vahicle exporter, already has a strong presence in the US and Europe, which accounts for 63 per cent of the company's overseas sales. Its marketing strength reflects Hyundai's status as the only Korean car company that has been able to sell vehicles under its own badge abroad through an independent dealer network.

Kia Motors and Daewoo Motors, Korea's second and third largest car companies, have also been shipping vehicles to the industrialised world by supplying them on an original equipment manufacturing (OEM) basis to their respective partners, Ford and General Motors.

They are launching an export offensive from a secure home market

They are now starting to establish an independent presence in Europe and the US. Kia started marketing in western Europe last autumn and recently announced that it would start producing its popular Sportage four-wheel sports utility vehicle in Germany early next year in a joint venture with Karmann, an automotive engineering gronp. Kia also plans to expand its US distribution network to 330 dealers by 1998.

Daewoo will enter western Europe next year and the US in 1996 following the recent collapse of its joint venture with GM, which had imposed export restrictions on the Korean motor company.

The prospect of increased Korean vehicle exports is provoking European and US car companies to demand that Korea open its market to foreign competition or face retaliation.

European motor companies are calling on the EU to revoke the generalised system of preferences (GSP) that lowers tariffs on Korean cars.

The US is asking that Korea cut its import tariff on passenger cars from 10 per cent to 2.5 per cent and revise vehicle taxes that discriminate against foreign models. Restrictions on the number of distribntion outlets available to importers and a complex certification system are regarded as the main non-tariff barriers to foreign cars.

Korea has already made a few concessions on the issue. The government says it has abandoned tax audits of foreign car customers, a practice that importers claim was meant to discourage their purchase as part of an official crackdown on consplcnous consumption.

Seoul is considering some of the other demands made by Washington. US officials expect that the luxury tax on executive cars will be cut and limits on TV advertising will be eased.

The promise of lower barriers is already prompting more western car manufacturers to open showrooms in Seoul. But most analysts believe that the increased presence of European and US cars will not seriously threaten Korean car companies. "European carmakers will only have a minimal impact on the market," says Mr Gilles Anouil, head of the EU office in Seoul.

The American Chamber of Commerce in Korea estimates that if car imports increase from their current market share of 0.14 per cent to 4.9 per cent, the same level as in Japan, it would represent 70,000 vehicles with annual sales of $1bn.

A greater potential threat to the Korean motor industry would be opening the market to Japanese car imports, which are now virtually banned. "Korean car companies at their current stage of development cannot compete against the Japanese," says Mr Kim Moo, a vice president at Samsung Heavy Industries, which is planning to enter the passenger car industry.

For a start, Japanese cars have a quality advantage over their Korean competitors. They might even be price-competitive despite the high yen due to better productivity in Japanese car-factories and low transport costs from Japan.

The government is considering dropping the import ban on Japanese cars in 1997, a measure that could disrupt Korea's ambitious programme to become one of the world's five largest carmakers.

In spite of trade protection, Korean car companies suffer from low profitability. Hyundai and Kia reported 1993 earnings of Won58bn and Won18bn respectively, while Daewoo lost Won60bn. Although all had improved earnings performance last year, analysts believe profits could have been much higher given the 20 per cent rise in total sales. Increased marketing costs and heavy debt burdens have cut into profits.

Competition in the domestic market is already expected to increase with the entry of Ssangyong into the passenger car industry in 1996, followed possibly by Samsung a year later. Although Korea remains one of the world's fastest growing vehicle markets, there are donbts whether a nation of 42m can support five car companies.

Growing pressure in the home market is the main canse for the Korean motor industry's rapid expansion overseas. Besides western Europe and the US, Korea is focusing on China as a new market. Car ownership in China is expected to triple to 3m in the next decade. "Korean vehicle makers view China as the source of their future salvation," says Mr Brian Gold, of Euro-Asian Business Consultancy in Seoul.

The focus is on China, where car ownership may triple in the next decade

Western car companies, frustrated about entering Korea, can at least take comfort from the fact that their Korean rivals are having similar problems in breaking open the Chinese market.

In what one Seonl-based western motor analyst calls "the height of audacity given Korea's own record," Seoul recently asked Beijing to drop barriers against Korean car imports.

Korea is also seeking to establish car factories in China as a means to penetrate the market. But Beijing is demanding that the Koreans establish joint venture automotive component plants as a first step, while postponing approval for the car factories.

Some Korean car companies are resisting the request, believing that the supply of components could give the Chinese the technical capability to create an independent motor industry that might eventually challenge Korea.

The impact of Gatt on a key industrial group

Samsung in the global village

The Uruguay Round of Gatt has sharply divided Sonth Korea, provoking a clash between tradition and modernity.

Farmers demonstrate in the streets of Seoul and other cities to protest at the opening of the rice market, which they warn could destroy the agriculture industry and with it the source of the country's rich culture.

In contrast, the Samsung industrial group tells its workers in a corporate video that "if we fail to open our door to foreigners, both Korea and Samsung will perish".

Parliamentary approval of the new Gatt agreement, which is expected this summer at the earliest, would represent the most significant sign yet of the government's commitment to accept a more open economy.

If farmers are the biggest losers from the Gatt treaty, Korea's big conglomerates, such as Samsung, believe they will be the main beneficiaries because the accord promises increased business.

"Industrial groups such as Samsung are the best-prepared sector of the economy to take advantage of the Uruguay round because we have been exposed to foreign competition for 30 years, while the service and agricultural sectors are vulnerable because they have been protected," says Mr Lim Dong-sung, president of the Samsung Economic Research Institute.

One obvious benefit is that exports of Korean manufactured goods will increase due to the reduction of tariffs. Samsung is the world's leading producer of semiconductor memory chips and Korea's largest consumer electronics company. Its other main businesses include ships, machinery and petrochemicals.

Although Samsung, tbe country's second largest conglomerate, is expected to face stiffer competition at home due to increased imports, particularly in the petrochemical and machinery sectors, it believes that growing exports will outweigh the negative effect of lower Korean tariffs.

Samsung has also recently reduced its operations in textiles and food processing, two other sectors that could suffer under increased imports from China and south-east Asia as tariff barriers are dismantled.

Nonetheless, Mr Lee Kun-hee, the Samsung chairman, remains deeply concerned that the group, which his father founded in 1938, remains psychologically ill-prepared to compete in the global market.

"Despite the anormous changes in the world, Samsung has yet to comprehend how far behind we are in these rapidly changing and competitive times," Mr Lee wrote in a group pamphlet that has bacoma mandatory reading for its employees.

"We are still caught up in the notion that Samsung is the best in Korea. We cannot be satisfied with that notion because it has no meaning in this global village," he adds.

Mr Lee last year introduced management reforms that emphasise individual initiative in a group that was known for its rigid hierarchical structure.

The reforms were widely publicised in Korea after President Kim Young-sam recommended that government officials should study Samsung's new management practices.

But there has been growing resistance among employees to the changes, which are considered "too radical", according to one Samsung executive. An internal survey revealed that a majority of workers disliked Samsung's new working hours of 7am to 4pm, which were introduced to improve efficiency.

Moreover, the group seems torn between its traditional commitment to growth and Mr Lee's goal of promoting quality at the expense of quantity, even if means the loss of market share.

Officials at Samsung Electronics, for example, speak of making the concern one of the world's five biggest electronics companies by 2000, up from its current ninth place ranking, even as they acknowledge the need for improvemants in product quality.

The "quality" issue has taken on increasad importance for Samsung because one adverse result of the Gatt agreement is that it will place increased pressure on Korea to end its import ban on important Japanese products, such as electronics and cars.

"We are still lagging behind the Japanese in terms of quality and productivity, although we are confident we can close the gap before 1997, when the import ban is expected to be eased," says Mr Moon Byung-dae, a senior managing director of Samsung Electronics.

One benefit from the Gatt agreement is that it could force the government to accelerate its financial liberalisation programme, leading to lower capital costs

The entry of Japanese cars into the domestic market could also hurt Samsung's plans to begin passenger car production in late 1997, although Samsung believes that its recent agreement to buy advanced technology from Nissan of Japan will make it competitive.

One benefit from the Gatt agreement is that it could force the government to accelerate its financial liberalisation programme, which would improve opportunities for Samsung to finance its corporate activities.

Samsung and other Korean companies generally have to pay high interest rates on capital raised at home because of the country's antiquated and inefficient financial system. Companies are also restricted by the government from raising large amounts of cheaper funds abroad.

The opening of financial services "will help the competitiveness of industry because it will promote increased efficiency in the domestic financial sector and lead to lower capital costs," says Mr Lim.

Lower capital costs are crucial for Samsung as it undertakes a restructuring of its operations. Samsung plans to expand its high-tech activities, including costly research on developing a next generation of 256-megabit memory chips. It will also spend at least $6bn on its car project by 2000.

But financial liberalisation will also have a negative impact, at least temporarily, on the financial service business that Samsung is developing. It already owns leading insurance and credit card companies and bought a securities firm in 1992.

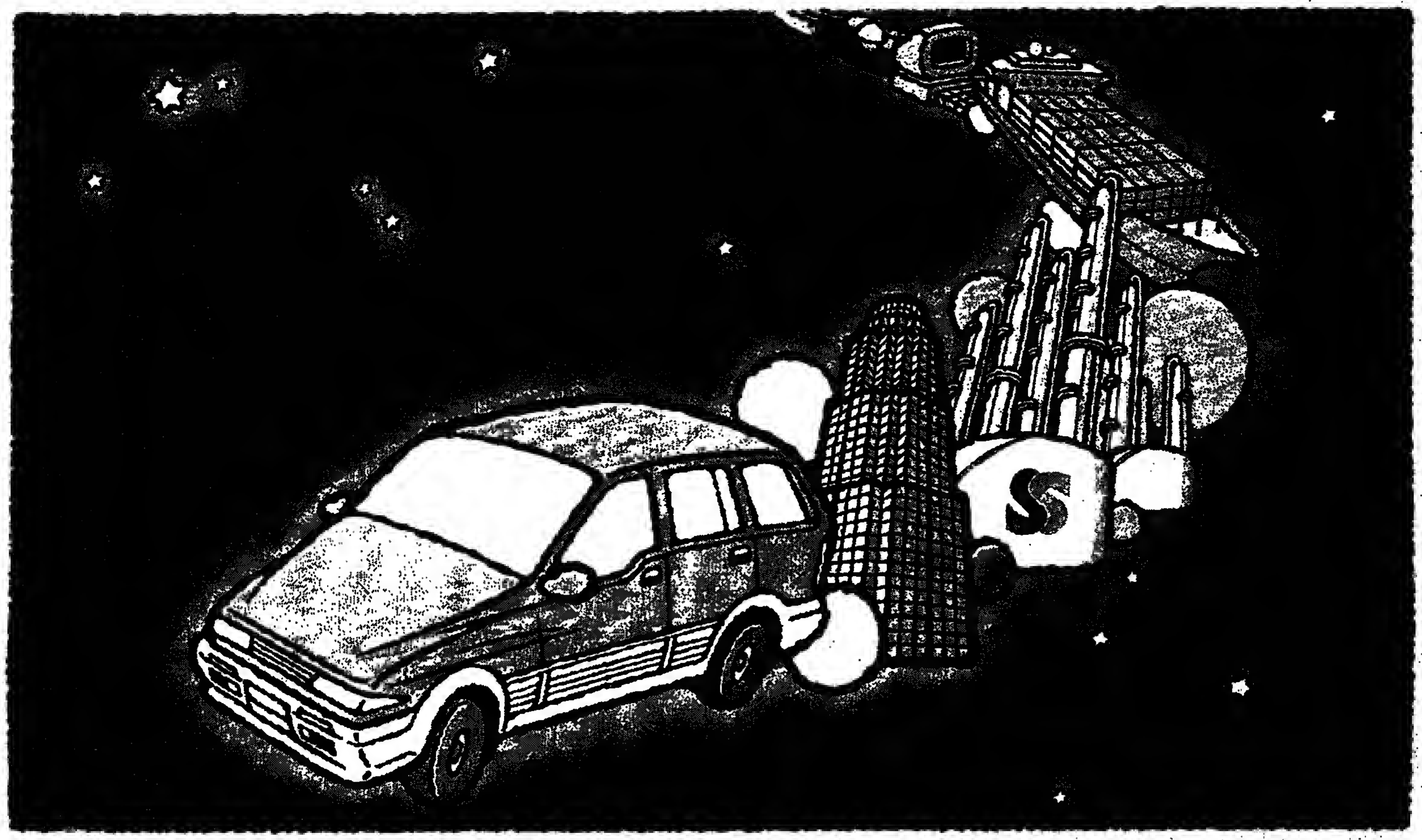
"These financial companies will suffer a bit initially because the financial sector in general is vulnerable to foreign competition, but in the long term we don't expect our position will be harmed," says Mr Lim.

Indeed, analysts believe that Samsung and other conglomerates that operate financial services will benefit in the long term from financial liberalisation. The government is expected to break down barriers among various financial sectors and allow the creation of comprehensive Korean financial houses as one means to improve their competitiveness against foreign rivals.

"Financial liberalisation will provide an opportunity for Samsung and other conglomerates to edge out weaker competitors and expand their financial services, outside of banking, as the financial industry undergoes consolidation," says Mr John Wadle, an analyst for BZW in Seoul.

John Burton

Ssangyong: Reliability in a variety of business circles.



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John Burton looks at the impact that market liberalisation may have on Cheju

Island's charm is under threat

The beautifol volcanic island province of Cheju provides a good example of tha challenges that South Korea is confronting in opening its domestic market to foreign competition.

Its half-million citizens are dehating whether the benefits offered hy wider international access will outweigh the disruptive changes caused hy market liberalisation.

Cheju, which lies 100 kilometres south of the Korean mainland, will he one of regions most affected by the relaxation of restrictions on agricultural imports under the recent Uruguay round of Gatt.

The threateued decline of the agricultural industry, which has supported the island for centuries, is accelerating a shift toward international tourism as the province's new economic mainstay.

This is also forcing a change in attitudes on the island, which has traditionally displayed a fierce independence to the outside world.

When Korea was a monarchy, political exiles were banished to the island

Cheju's tragic history has been marked by frequent revolts against the central government in Seoul. Its farmers were mostly freeholders, rather than tenants as in the rest of Korea, which contributed to a resentment against the heavy hand of the central government.

The rebellious nature of the island was reinforced by its role as a place of banishment for political exiles until the expiration of the Korean monarchy in 1910.

The island suffered a mini-civil war in 1948-49, which was a harbinger of the Korean War of the 1950-53, when the Seoul government adopted a tough policy in reasserting its authority over the island following Korea's liberation from Japanese colonial rule.

An estimated 30,000 persons, about 12 per cent of the island's population at the time, were killed during the insurrection.

The island's bloody history has created ambivalent attitudes toward the vast changes being imposed on Cheju from the outside.

The most significant development will be the decline of agriculture, which still accounts for 36 per cent of the island's economy.

Cheju's agricultural industry is largely based on tangerines, which are grown on small, inefficient and heavily state-subsidised farms on the southern half of the island. The full opening of the Korean market to tangerine imports by 2004 is likely to lead to a consolidation of local farms.

The government, however, hopes to take advantage of the lower trade barriers promised by the Uruguay round to increase tangerine and other agricultural exports to Japan, which are expected to triple within the next five years to $100m.

Cheju is seeking to create a sales network for agricultural products in Japan and establish direct shipping routes there for the quick delivery of produce.

But these measures are only meant to preserve some of island's agricultural industry and will do little to sustain Cheju's economic growth. Instead, the government is concentrating on inter-*national tourism* as the key instrument to revive the island's fortunes.

The natural beauty of the island is well-suited to attract visitors. Its landscape bears more similarities to Europe thau to Asia, combining the volcanoes of Iceland with the moors of Ireland and the coast of northern Italy. The push for tourism began in the 1970s, when Cheju was developed as a honeymoon resort for Korean couples. It enjoyed a captive market since overseas travelling by Koreans was severely restricted by the government until the late 1980s. Tourism in the past few years has become the island's biggest industry, accounting for 40 per cent of the economy.

Cheju: the island depends on tourism and tangerines

But the recent easing of travel restrictions has meant that Korean uewly-weds are now visiting Guam, Saipan and Hawaii instead. Chejn has switched its tourism strategy to attracting more foreign visitors, particularly from Japan and Taiwan.

A total of Won7,390bn will be invested in Cheju by 2001 to build a series of resort complexes in an attempt to increase tourism hy 50 per cent to 5.8m visitors annually. The emphasis will no longer be on mass tourism, hut ou attracting prosperous individual travellers.

"We would like to build more hotels, sports facilities, aquariums, amusement parks, yacht marinas and casinoes in the hope of making Cheju the Las Vegas of Asia," says Mr Chi Youn-tai, president of the Korean National Tourism Corporation.

The KNTC has already established one resort complex at Chungmun Beach and will participate in the construction of two others. The Hanjin conglomerate, which owns the country's main carrier Korean Air, is also planning to build a resort facility.

The government estimates that increased tourism by high-spending visitors will quintuple the size of the island's economy to Won7,800bn by 2001.

But the islanders have expressed resentment at the development plans. "Cheju people are very independent-minded and don't like to be interfered with by outsiders," admits Mr Chi. "These people sometimes feel that the outsiders are reaping all the advantages of the development and they are left with little."

But the conclusion of the Uruguay Round and its impact ou the island's agricultural sector are changing people's attitudes. "They now realise that they have a beautiful place for tourism, which will mean their survival. They are beginning to understand that tourism is very important," Mr Chi explained. Public opposition to the building of a second golf course on Cheju, for example, is receding.

Cheju enjoyed a captive market since the government severely restricted overseas travelling

But the threat remains that extensive development will spoil the island's considerable natural charm and destroy the appeal that first attracted visitors to Cheju.

Louise Lucas reports on efforts to boost tourism

Overseas publicity criticised

This *season's T-shirts* in Seoul feature the cute kids of the Visit Korea Year logo, banal grins distorted in fear and chubby legs in flight as a Scud missile approaches from the armpit zone. The legend runs: "You'd better visit Korea in 1994 ... because it might not *be* here in 1995".

North Korea's nuclear ambitions have undoubtedly made something of a mockery of the republic's drive to woo tourists in 1994; but hoteliers and other industry figures complain the drive has been as ill-conceived as it has been ill-timed. Marketing has been thin and poorly targeted, incentive schemes have gone unflagged. The tourist office in Seoul shows an exotic promotional video containing war clips among shots of cherry blossom and snow-clad mountains.

The Korean National Tourism Corporation will spend some $8m on the campaign, promoting Korea as a tourist *destination through TV* advertisements on Star TV and CNN, publicity tours for travel agents and school teachers, poster ads on buses from London to Hong Kong, and – intriguingly – through sending some 50 Miss Korea contestants to entice Americans in New York, Los Angeles and Washingtou to sample the delights of Korea. That could well be the winning stratagem in KNTC's armoury.

KNTC, which has masterminded the Visit Korea Year in commemoration of Seoul's sixth centennial, claims success: tourist arrivals in the first five months of the year are np 18 per cent year-on-year and it expect 4m visitors for the whole of 1994, a 20 per cent increase on last year's 3.3m but still below the 4.5m forecast in its own promotional slide presentation. The average *visitor spends four* days and five nights, during which he will spend $1,100.

50 Miss Korea contestants will visit the US to entice *Americans* to sample the delights of Korea

Ambassador Chi Young-tai, KNTC's president, says the figures are encouraging and hlames any shortfall in visitors on the nuclear issue. "Sometimes relations are stormy between North and South Korea and unfortunately this is a very stormy period, but I'm sure the cloud will pass over.

"If you look around it's business as usual – the stock market is rising and traffic jams are as bad as ever – so it's only the news media that see things differently."

KNTC's efforts in pushing tourism are impressive: the tourist office, complete with theatre and raised map models, must rate as one of the most comprehensive and user-friendly in the world and staff *display CD-Rom memories* and impeccable English. The trouble is that they are to an extent preaching to the converted rather than broadcasting the message further afield.

That, at any rate, is the lament of the hoteliers. The 1,500-room Lotte, one of Seoul's leading tourist hotels, reports no noticeable improvement in sales this year – because of the nuclear scare, the recession in Japan which provides 70 per cent of its customers (although this is offset to some extent by the strength of the yen) and the government's failure to spread the Visit Korea Year message abroad.

According to a hotel executive, "Malaysia had a very good Visit Malaysia Year, *but* we have not been so successful in promoting sales in Visit Korea Year. That is mainly *because the KNTC is in charge* of sales promotion. I guess the promotion planning is a little strange and out of date.

"They do not have enough experience in promoting abroad, nor have they made sufficient preparations in time. That – and the fact the budget is insufficient – is why they have failed," he explains.

Ms Seung Eun Chung, sales manager (Europe) for The Westin Chosun, one of Seoul's 10 de luxe hotels, cites the case of a Canadian travel agent who was unaware of one of the government's key incentives – scrapping the 10 per cent tax which is normally added to room rates for non-resident guests and travel agencies.

Having been told, the agent tried to contact the Korean government representatives in Toronto for further informa-*tion – but drew blanks all* round. Many guests staying in the Westin Chosun and benefiting from the 10 per cent reduction were also unaware of the government's bounty.

"My feeling is that the government has failed to promote Visit Korea 1994 abroad. They have also failed to activate demand internally," says Ms Chung.

Much of the push has been concentrated on Japan, which yields some 45 per cent of Korea's tourists. The tireless KNTC has supported this internally by providing Japanese as well as English booklets and cassettes for taxi drivers, although Ambassador Chi admits to limited success here: "They don't realise how *important their role is* in promoting tourism. Sometimes they are very rude, especially because of language problems."

Broadcasting the need to learn English – "to internationalise" – has been an important spoke of the tourism campaign, and staff at hotels and shops are well-versed in the (Americanised) niceties, bidding guests have a nice day and sweet dreams depending on the time of day. A limited number of road and snhway signs now bear English translations and taxi drivers generally have at least enough English to ascertain if their passengers are American.

Other steps taken to enhance Korea's reputation as a tourist destination include streamlining the immigration and customs procedure and government plans to invest funds in improving the country's infrastructure. Sports facilities are also being upgraded and developed, as *these are an important part of* Korea's tourism message.

Sometimes taxi drivers are very rude – because of language problems

Korea itself has a convincing message for tourists. Depending upon the season, it offers skiing and mountain hiking in national parks; sightseeing round old Buddhist temples and palaces; scuba diving, golf and hunting; cherry blossom in springtime and a semi-tropical climate in the southern island of Cheju. It is no longer particularly cheap (except, perhaps, to those wielding yen), a problem KNTC has paid lip service to by producing a book of money-off coupons.

This year Korea will host 300 international meetings in the capital city, in addition to sports and leisure events – such as the underwater photographic championship and international windsurfing contest – across the country.

For the big hotels, the *real* money spinner is husiness travellers who are starting to return after a two-year recession-induced slack period. This year the Westin Chosun expects to fill some 80 per cent of its rooms over the year. The average room rate is as much as W110,000, except for the five months' low season.